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Trail of destruction

Mifid II set to stamp out trail commission

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Editor's view

NATALIE HOLT

Are you prepared to lose a chunk of your revenue?

In all the regulatory wrangling that surrounded the RDR, the then FSA's position on trail commission took a long time to clarify. Advisers and providers were unclear of the rules on whether trail was acceptable, and what the triggers were for trail to be switched off.

As a result, the regulator was forced to make rules setting out exactly when trail would be payable post-RDR.

The advice sector had time for a small intake of breath before the FCA struck again in the form of the ban on payments between fund managers and platforms. The two-year sunset clause on legacy payments agreed as part of the reforms effectively switches off trail on advised platform business with effect from next April.

Finally, advisers understood that, for the most part, trail on pre-RDR business would continue. Unfortunately, the situation was as clear as mud for anyone outside the advice bubble - one national newspaper journalist once told me the RDR was not an easy sell to consumers because the rules around trail and platforms made it a difficult concept to explain.

It is a situation that is about to get murkier still thanks to policymakers in Europe. Mifid II is a wide-ranging regulation that will impact how client calls are recorded, the definition of independence, consumer protection and the regulation of pensions, to name but a few.

What has got less attention is the significance of a ban on commission payments, which would switch off any commission, including trail, on all advised business in the UK.

There are several reasons why this issue has not come to the fore, not least because of a lack of definitive information from the regulator.

There is disagreement between the FCA and trade bodies about how the rules should be interpreted, and whether the FCA has any scope to act outside the diktats of the European Commission.

Part of the challenge the regulator faces is it would need to argue that keeping trail commission is in the public interest. This would

Part of the challenge the regulator faces is it would need to argue that keeping trail commission is in the public interest. This would also need to interact with the Government review into advice

also need to interact with the Government review into the advice market announced this week.

While many firms will be predominantly fee-based, advisers will need time and certainty of the rules to prepare for the loss of an average of 13 per cent of their revenue. Unfortunately neither are on the cards.

Natalie Holt is editor of Money Marketing. Follow her on Twitter: @Natalie_Holt_MM

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Trailing in Europe's wake

Advisers face Mifid II ban on trail commission

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LAURA SUTER

Advisers could be banned from collecting any trail commission for legacy business as a result of Mifid II regulation.

Under the RDR, previously agreed trail commission is allowed to be paid on pre-RDR investment amounts where products are topped up after 31 December 2012, and on fund switches within a product.

Trail will also be effectively turned off next April for advised platform clients, when the two-year sunset clause on legacy payments between fund managers and platforms will expire. But incoming regulation from the European Commission, due to come into force in January 2017, could put an end to all trail paid to IFAs on retail investment business.

So what is it exactly that Europe is proposing on trail? What would be the implications for advice firms large and small? And, given the significance of such a ban and the narrowing window in which to prepare, why is there still so much uncertainty around the issue?

Bleak situation

Investment Association retail markets specialist Mike Gould says: "When you look at Mifid II at the present time there is no provision for grandfathering of legacy business. The implication is that from 3 January 2017, when Mifid comes in, the legacy business still having commission paid will have to stop on that date."

The Mifid II directive states: "It is also appropriate to further restrict the possibility for firms providing the service of investment advice on an independent basis and the service of portfolio management to accept and retain fees, commission or any monetary and non-monetary benefits from third parties and particularly from issuers or product providers."

While Mifid II does not mention anything about trail in particular, law firm Clarke Willmott partner Philippa Hann says: "On the face of it, it will bring an end to trail commission to those offering advice on an independent basis."

The industry is lacking clarity on the issue, with much of the Mifid II regulation yet to be set in stone and with no technical details released. However, as the regulation stands at the moment, it looks bleak for those advisers relying on trail.

> **Any adviser firm that wants to survive for a significant period, say, seven to 10 years post-RDR, has to have a strong plan to survive without trail**

Hann says: "I tend to err on the side of caution in the absence of clarification from the legislature and people have to assume it will be contrary to the requirements of Mifid II to continue to accept trail commission."

Gould adds: "I have discussed it with a couple of legal firms and that's their understanding as well, it's pretty much certain subject to any change by the Commission."

The FCA has yet to release a consultation paper on Mifid II, but held a roundtable last month discussing the regulation, and the impact on trail. Minutes of the meeting were not available publicly, but the FCA says: "We have no plans to change the current rules on trail commission."

How long is the trail?

Following the RDR, the level of trail being paid out in the industry has dropped, as expected.

Figures from CoreData Research show the average advice firm receives 13 per cent of its business revenues from trail, down from 15.9 per cent in 2014 and 26.9 per cent in 2013.

However, while this is the average, "a strong portion" of adviser firms get more than 15 per cent of their revenue from trail.

When broken down by adviser assets the data highlights those firms with less than £25m in assets under management are more reliant on trail than their larger rivals. Of firms with between £5m and £25m in assets, 44.9 per cent still get more than 15 per cent of their income for trail. This compares with 1.3 per cent of those with assets of £250m or more.

But Coredata says many of these trail-reliant advisers "appear to be running the trail gravy train to its final destination". Fifty-nine per cent say they will not be in their current role in three to five years compared with almost 77 per cent of non-trail reliant advisers.

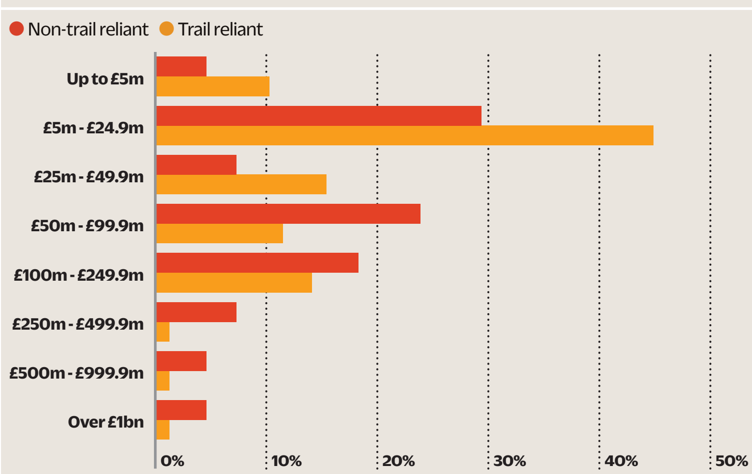
Zurich UK Life head of regulatory developments Matt Connell agrees those businesses that are looking to survive long-term will not have a large exposure to trail commission.

"Any adviser firm that wants to survive for a significant period, say, seven to 10 years post-RDR, has to have a strong plan to survive without trail," he adds.

The public interest case

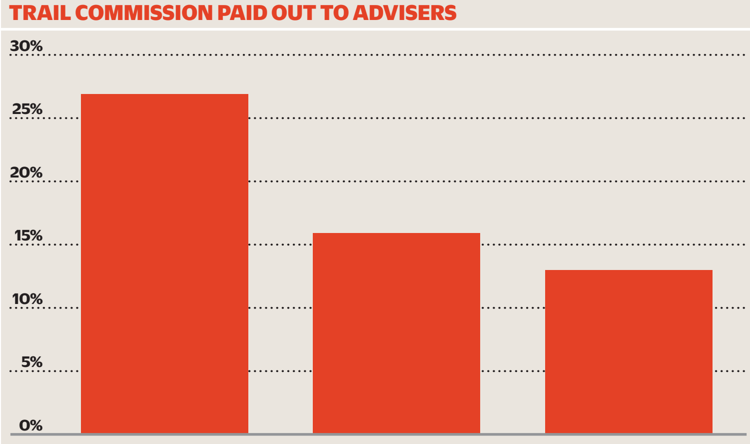
There is some room for the FCA and the European Commission to change the current Mifid II regulation to ▶

TRAIL RELIANCE BY AUM



TRAIL RELIANT DEFINED AS ADVISERS THAT GET MORE THAN 15 PER CENT OF THEIR INCOME FROM TRAIL.
SOURCE: COREDATA

TRAIL COMMISSION PAID OUT TO ADVISERS



SOURCE: COREDATA

EXPERT VIEW

MATT CONNELL

Some of the Mifid measures are in the form of regulation and the FCA cannot alter those. Mifid generally is a maximum harmonisation directive, so the onus is on the country regulator to prove something is in the public interest if they are going to add something on top.

In other areas, like insurance, there is no maximum harmonisation so the FCA can do what it wants, either sticking with the European regulation or choosing to go another way.

The Commission generally frowns on anything that goes over and above Mifid II as they see it as a barrier to harmonisation of the market, but where the Commission feels there is strong public interest and where one country is moving in the direction the whole of the EU is moving in, they may be willing to make exceptions.

The Commission frowns on anything that goes over and above Mifid II

The FCA can put that case to the Commission and as a result the Commission can either say "Yes it's in the public interest" and allow it to go through, or say "No, it's not in the public interest", in which case the FCA can take the issue to the European Court of Justice. But there is a precedent, with the ban on commission for tied agents not being introduced for Mifid but it does exist in the UK. This is one where the UK has argued it is in the UK public interest to go further.

Matt Connell is head of regulatory developments at Zurich UK Life

allow for grandfathering of trail commission to continue.

"It is possible that the Commission which is now looking at making the rules will include a grandfather rule, but at the moment it's not there," says Gould.

Connell says the FCA could also campaign that it is in the public interest for trail commission to continue to be paid.

"The Commission generally frowns on anything that goes over and above Mifid as they see it as a barrier to harmonisation of the market. Where the Commission feels strongly it is in the public interest and where one country is moving in the direction the whole of the EU is moving in, it is willing to make exceptions," he says.

Trail will continue to fizzle out over time. It will be a long slow death rather than anything more than that

However, it may seem difficult to argue clients continuing to pay trail commission is in the public interest.

Connell says the argument from the FCA would be it creates a strong market, where contracts are enforceable and there is certainty in the market rather than ever-changing rules.

"In the short term it's the customer paying less money, which is always a good thing for the customer, in the longer term it gives a more stable market where providers know where they stand."

Threesixty Services managing director Phil Young says the big issue that remains is whether the FCA has the appetite to enact a ban on trail commission.

Young says the dynamics with the FCA, Treasury economic secretary Harriett Baldwin, and to a certain extent pensions minister Ros Altmann, mean the regulator is unlikely to place more restrictions on advisers.

With the FSA not having banned trail at RDR, the more liberal economic views from Baldwin and Altmann and the pushback on regulation coming from the EU more generally, means any ban is unlikely, he adds.

"My gut feeling is there is not a lot of appetite to implement something harsher than the current system, and as a result trail will continue to fizzle out over a period of time. It will be a long slow death rather than anything more than that."

He adds any decision on banning trail will likely be the task for the new, incoming head of the FCA, not for outgoing chief executive Martin Wheatley, meaning a decision may be some time away. "We need to wait and see the change there."

Drawn-out legal battle

Young argues any ban on commission could also become a litigious event, which would give the FCA another reason to back away from such a move.

He says advisers entered into contracts that were legal at the time and could have grounds to fight any change to those contracts.

"I can see a lot of lawyers making a lot of money out of arguing the toss. It could be an expensive, drawn-out legal battle."

Compounding the issue is that a lot of the trail commission is paid out to consolidator firms that have acquired businesses with a high percentage of revenue in trail.

"The ones that have the biggest financial exposure will probably be the big consolidators that also have the funds to fund expensive legal campaigns on these sort of things," says Young.

For advisers the biggest impact is losing that income stream, particularly for advisers relying on trail.

"That was an income stream that was created within the rules as they stood," says Connell, and advisers could argue they could have charged customers upfront but instead took the price of advice over the long term.

These advisers would argue that "they shouldn't be penalised for that, that's the argument in favour of keeping trail from before RDR came in," adds Connell.

Firms that have projected their future revenues on the income of trail are also going to be displeased at any ban, says Hann. "I can see a lot of firms are going to be unhappy. They have modelled their future profits on receiving this trail and entered into a contract in good faith and agreed this with clients."

Young says ultimately the move may be too great for a dwindling area of the market. "It is a bit of a sledgehammer to crack a nut for all that is likely to be kicked up."

Countdown to clarity

The timescales for any clarity on the issue appear vague. The European Commission was meant to report on final technical guidance on Mifid II by this summer, but this is now expected by the end of September or early October.

While the FCA has already released a discussion paper on Mifid II, it did not raise the issue of trail commission in the paper. It will work on a consultation paper to be released before Christmas.

"The ability to engage with staff is quite tricky, we're looking at Q1 before we get something definitive," says one regulatory source who wanted to remain anonymous.

"It has dragged on for longer than we thought. The advisers can't engage until they know what the Commission themselves will accept or reject. We're in limbo land.

"It is frustrating not knowing what they are actually doing, guidance has not been released. I'm not sure how much the average IFA has woken up to the facts of reform under Mifid II."

Connell is expecting more clarity before the start of 2016, when the FCA should come out with a policy statement. He says: "By the end of the year we expect the debate to have moved on."

ADVISER VIEWS

Dennis Hall
Managing director Yellowtail Financial Planning

There are some firms buying up a lot of books and maybe trying to convert that trail commission into ongoing fees on a platform. Some firms are going to struggle and perhaps have trouble staying in business. They'd be expecting to receive a regular quarterly or half-yearly income trail which has been used to support their business. They will not have been quick enough in converting that into a fee-based proposition or scaling down their business sufficiently that they can match their income to their costs. It might be a difficult time for them.

Alan Smith
Chief executive Capital Asset Management

Banning trail altogether leads to further clarity around services provided and remuneration paid for that service, so advisers simply need be in a place to charge fees of clients who wish to pay and value that service. But if it is terminated, ultimately who will benefit? I suspect clients will not receive enhanced policies, it'll tend to be just retained by the product providers, so that would be an issue for me.

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‘Dangerous precedent’

Providers prepare fierce fight against exit fees clampdown

SAM BRODBECK

The Government will face fierce opposition if it tries to impose a cap on exit charges on the pensions industry, experts warn.

Providers will battle to avoid having to make expensive updates to archaic systems and push to ensure any new controls apply to all financial products that charge for closing accounts.

Insurers say they will use the Treasury’s consultation, published last week, to highlight how exit penalties are not just a legacy issue but a “new problem and a growing one”.

In addition, senior industry figures warn the Government could set a “very dangerous precedent” if it forces insurers to rewrite contracts written decades ago.

Early exit

In June, Chancellor George Osborne announced the Government’s intention to consider taking action on “excessive” exit charges as part of an investigation into why savers’ access to the new freedoms was being blocked.

Now the Treasury has launched a 12-week consultation on how exit fees, the transfer process and new tighter advice requirements are frustrating the freedom and choice agenda.

In December 2014 the Independent Project Board set up by the Association of British Insurers found £26bn of pension assets being charged over 1 per cent.

And it revealed around £3.4bn exposed to potential exit charges of 10 per cent if savers left contracts immediately. The ABI says nearly nine out of 10 people making use of the freedoms will not face an early exit fee.

But pension providers say the Government should also focus on other parts of the industry where similar fees are levied.

An insider at a major provider says: “The debate has become far too narrow in terms of what exit fees are and charges in general. We have an issue with modern platforms and their early account closure fees or per line of stock fees or uncrystallised funds pension lump sums transaction costs - these are equally barriers to accessing freedom and choice.

“Platform exit fees can add up to hundreds or thousands of pounds and ignoring that and just concentrating on old insurance policies taken out in the 1980s and 1990s is wrong. The consultation allows the industry to educate the Government on the charges you can suffer in modern products too. The assumption is exit charges are an old problem but it’s also a new problem and a growing one as well.”

Some firms have introduced fees in conjunction with launching some of the new pension withdrawals options. Royal London charges £184 if customers make two or more ▶

Platform exit fees can add up to hundreds or thousands of pounds and ignoring that and just concentrating on old insurance policies is wrong

UFPLS withdrawals and Fidelity charges £100 per withdrawal if there are more than three in a year.

Customers exiting Hargreaves Lansdown's flexi-access drawdown products within the first year are hit with a £295 plus VAT fee, which drops to £25 plus VAT after a year.

Likewise, some direct-to-consumer platforms charge customers who transfer out. AJ Bell YouInvest, Barclays Stockbrokers and Tilney Bestinvest all help new customers meet the cost of other firms' exit fees, but also charge customers who exit.

All three pay up to £500 towards exit fee costs. But AJ Bell charges £25 per line of stock in exit fees, as does Bestinvest, while Barclays charges exiting customers £30 a line.

Aegon regulatory strategy director Steven Cameron says: "While you could read the consultation as focusing on the old world, it does not specifically exclude the new world and if those practices take place they should be considered here too.

"This all points to the fact you need a flexible approach because a flat cap doesn't reflect the underlying rationale behind some of the exit charges and the rationale for more modern exit charges may be very different to the rationale for older products."

Dangerous precedent

Insurers face hefty costs if they are forced to change the terms of contracts and their shareholders will suffer an unfair writedown, says EY senior adviser Malcolm Kerr.

Kerr helped design some of the products potentially affected. He says: "It's a very dangerous precedent to say someone can step in 30 years after a product has been sold and say the contract terms are unfair. You are essentially saying when a contract is agreed between two people – where there's absolute clarity on what the embedded terms are – someone else can say we don't think this is a fair contract."

Kerr adds it would be "extraordinarily challenging" to change old administration systems to reflect new charges. He says: "Most insurers would have to manually calculate a transfer value and that would need to be checked – a very expensive process."

Charge cap: the options

The Treasury wants views on what models or level of exit fees should be considered "excessive" or unfair. With-profits funds have been carved out of the investigation.

Three options are being explored: introducing a cap on all early exit fees, either at a fixed percentage or monetary amount; a flexible cap, limited to pots above a certain level, for instance; and a voluntary approach.

Providers appear to favour a flexible arrangement. A Number 10 spokesman has been credited with suggesting a cap set at 2.5 per cent was preferable, but the consultation does not mention a specific figure.

Royal London head of corporate affairs Gareth Evans says: "Something providing flexibility around historic contracts would be helpful. The consultation doesn't mention a figure, that's sensible because there are complex exemptions. For example, we have historic products that have tax-free cash well in excess of 25 per cent and that's safeguarded by having early closure penalties. There's a case to be made that valuable benefits, that are costly for providers to offer, are preserved and penalties in place to pay for them are preserved."

In addition, any cap would have to be fair to all customers and take into account the different charging models used in the past. While some customers opted to pay low charges upfront which were recouped over the lifetime of the policy, others paid the bulk of fees at the outset.

Kerr thinks legal problems around forcing firms to change contracts could force the Government down the voluntary route. But industry insiders warn competition laws could prevent firms agreeing a common set of charges.

One suggestion offered in the consultation is allowing firms to waive or reduce exit fees where members transfer within the same company or pension scheme.

Two providers which spoke to *Money Marketing* on condition of anonymity say firms would be more likely to voluntarily remove charges if they were retaining the business.

One says: "You could interpret the treating customers fairly principle as saying if you waive fees for anyone, you waive for everyone. But there's a rationale in saying if someone is transferring to another one of our products, rather than moving away, then we're retaining those funds under management. Therefore we might choose to waive an exit charge in those circumstances. We shouldn't let treating customers fairly stop providers from giving enhancements to certain groups where that's commercially viable, even if they can't offer it across all customer groups."

Despite these unsolved issues, consumer groups will likely push for the reform timeline to be accelerated.

Ex-Which? financial services team leader Dominic Lindley says: "There is still likely to be a long wait before all consumers can access their pension without paying excessive penalties. Even if this consultation results in a decision to cap exit charges the FCA will then have to issue another consultation before it can introduce any rules. The Government should look for some way to speed the process along. Rather than waiting for this long consultation process, the Government should immediately name and shame the providers levying exit charges."

EXPERT VIEW

MALCOLM KERR

Govt will face legal problems if it tries to enforce cap

It is a very dangerous precedent to say someone can step in 30 years after a product has been sold and say the contract terms are unfair. There is potentially a really material impact, both from a systems and financial point of view. You are essentially saying when a contract is agreed between two people – where there is absolute clarity on what the embedded terms are – someone else can come along and say we do not think this is a fair contract.

The Government may run into legal problems if it tries to enforce scrapping or capping exit charges and it might have to ask providers to do this voluntarily. So those companies either have to impose the original charge and live with any bad PR that might result from that, or reduce the charge, and that is diminishing shareholder value.

In the past, most insurers with direct salesforces and most intermediaries would have sold these kind of products. I worked on these products back in the days before the RDR, when commission was payable.

It was a straightforward calculation, you are paying x amount of commission – say, equal to the first two years' premium – and then constructing a product that enabled you to recover those costs over the term of policy. This would generate enough money to cover commission and other expenses as well as getting a return on the capital deployed.

Describing these charges as a "rip-off" is inaccurate. They were built into a product, explained very clearly, and the reason they look expensive is commission in the market was high at the time.

If you told an insurer they can no longer recover those charges, that could lead to a reduction in the embedded value of that line of business.

It would also be extraordinarily challenging to change old systems to reflect new charges. Most insurers would have to manually calculate a transfer value and that would need to be checked – a very expensive process.

Malcolm Kerr is a senior adviser at EY

Most insurers would have to manually calculate a transfer value and that would need to be checked – a very expensive process

ADVISER VIEWS

David Trenner
Director
Intelligent Pensions

Policyholders were not charged at the outset to cover set-up costs, so it is only fair they pay at the end. It would be absolutely wrong for the Government to reduce charges on such policies which would benefit policyholders at the expense of those whose policies were "front-end loaded".

Jamie Smith-Thompson
Managing director
Portal Financial

Government intervention is not always welcome but with exit charges seeming to be a lottery based on who the provider happens to be something needs to be done for consumer protection.

Castle Trust

House Price Trackers

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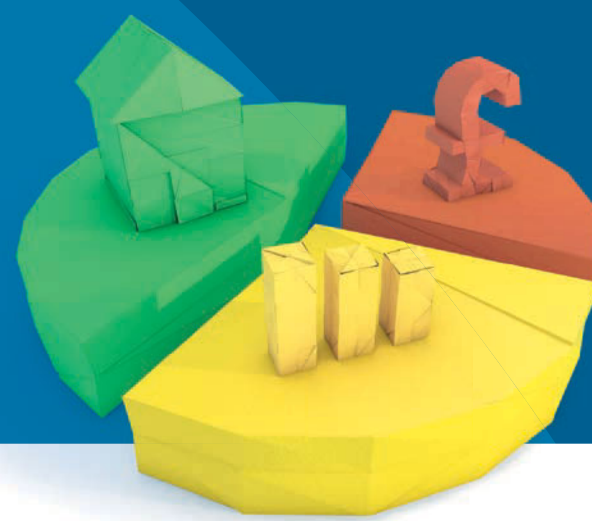

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The week

PENSIONS

Thousands at risk of HMRC pension freedoms fines

Thousands of consumers are at risk of racking up HM Revenue & Customs fines as figures show few savers are aware of new reporting requirements.

Last year, *Money Marketing* revealed plans for a new rule that meant people who accessed their pension savings would have to alert their providers to the fact they were entitled to a reduced £10,000 annual allowance. The Government subsequently watered down the proposals so savers have only to inform providers they are still contributing to.

However, the £300 on-the-spot fine - which also increases by £60 a day until resolved - remains in place.

Yet providers report very few customers are fulfilling the requirements, four months on from the introduction of the freedoms in April.

Standard Life and Aviva have each received around 120 notifications from customers, while Zurich has had less than 30.

Association of British Insurers figures show £1.8bn was withdrawn from pension pots in April and May alone. This includes 65,000 cash withdrawals and 170,000 withdrawals from income drawdown policies.

Each customer accessing their pot for the first time needs to alert their provider within 91 days.

Standard Life head of pensions policy Jamie Jenkins says: "What could easily be overlooked as a relatively trivial task may well result in a fine equivalent to having your car towed away. It's imperative we make the signposting clearer than parking restrictions."

Zurich head of retirement propositions Rod McKie says: "Pension providers already write to customers advising them to notify any other schemes but the message doesn't appear to be getting through.

"We don't want to see savers receive unexpected fines by HMRC for taking advantage of the reforms."

Dobson and Hodge director Paul Stocks says: "The problem is consumers don't know what they don't know. They don't read the small print and this is a new detail that they are very unlikely to be aware of.

"These things need policing because you have that reduction in the annual allowance.

"I'd like to think HMRC don't do things deliberately to catch people out but, in reality, people don't even realise there is a consequence and can get caught out by it."

Sam Brodbeck

Jenkins: 'Make signposting clearer'

NETWORKS

Sesame promotes itself as 'independent'

Sesame was still advertising itself as an independent adviser last week despite signalling it would operate as restricted nearly two years ago.

In November 2013, *Money Marketing* revealed the network would become restricted for investments and pensions in 2014 but remain independent for mortgages and protection.

In March this year the network revealed it would no longer operate an investment advice service. However, as recently as last week Sesame's consumer-facing page on its website said: "To ensure you get quality independent advice tailored to your needs, you should look for a financial adviser who is a member of the Sesame network."

Sesame has since made changes to the website, removing "independent" from the page.

An FCA spokeswoman says: "We do not comment on specific companies but we expect firms to be describing themselves correctly."

Guidance published following the RDR says: "We expect a firm to consider where and how it uses the term 'independent advice' to ensure that it is consistent with its obligation to be fair, clear and not misleading in its communications with clients.

"Essentially, the consumer should be left in no doubt of the type of advice they are receiving."

Following the restructure of the group, appointed representatives must choose between going directly authorised as part of Bankhall, joining another network or becoming directly authorised.

Sesame says its primary concern is to avoid customer confusion and has now changed its website.

Sam Brodbeck

PENSIONS

LV= in talks over launch of DB transfer service

LV= is planning to launch an advice service for defined benefit transfers, *Money Marketing* understands.

The pension provider is in talks with actuarial consultancy Hymans Robertson, which advises trustees of DB schemes, about creating a referral system in which LV= will provide the advice required by legislation.

New FCA rules mean people transferring out of DB schemes with benefits worth £30,000 or more must first speak to a financial adviser holding the pension transfer specialist qualification.

The pension reforms have boosted the appeal of defined contribution pensions, increasing members' appetite to transfer out of DB schemes.

However, the tighter regulatory framework on transfer advice and fears over future claims from so-called insistent clients have restricted the supply of advisers willing to work in the area.

LV= will provide interested scheme members with guidance on the trade-offs between a DB pension and a DC arrangement, as well as giving advice to those who want to proceed, *Money Marketing* understands.

LV= and Hymans Robertson declined to comment.

Separately, LV= this week announced it has invested in a majority stake in automated advice firm Wealth Wizards.

The insurer has not disclosed the size of its holding nor how much it intends to inject into the business but it does say the deal will enable Wealth Wizards to develop a white-labelled platform.

Sam Brodbeck

REGULATION

Sipp firms clash over commercial property assets

Rival Sipp firms are at loggerheads over how the regulator treats commercial property.

The FCA is introducing a new capital framework for Sipp providers from 2016 based on the amount of standard and non-standard assets held. But the industry is divided over how commercial property should be treated and in June the regulator published guidance as part of a quarterly consultation. It said the "key consideration" was whether the assets were "capable" of being readily realised within 30 days.

The Association of Member-Nominated Pension Schemes' response, seen by *Money Marketing*, reveals the body thinks commercial property should be deemed standard.

Amps chair Neil MacGillivray says: "You don't want to hold more capital than you have to. It's the esoteric assets that are causing the issue; commercial property's been there since the start of Sipps and, while it can be complex to administer, it's not the problem.

"It would appear wrong to have to classify it in such a way as to have to hold additional capital.

"For a lot of smaller, bespoke Sipp providers it's a major issue, whereas some of the traditional life companies that have moved into Sipps, and the platform providers, do not touch commercial property."

However, some providers - including Legal & General-owned Suffolk Life - think commercial property should be treated as non-standard.

Suffolk Life head of communications and insight Greg Kingston says the industry has to be prudent.

He says: "Investors should demand that their chosen Sipp operator has both sufficient capital and the means to invest for the future."

Sam Brodbeck

MacGillivray: 'Not the problem'

PENSIONS

Drawdown customers flood to active funds

The first wave of drawdown customers since the pension freedoms are backing active managers, figures from Hargreaves Lansdown show.

An analysis of the investment preferences of Hargreaves investors who opened drawdown contracts after 6 April shows just £1 in every £20 went into passive funds.

UK Equity Income was the most popular fund sector, accounting for 27.55 per cent of all drawdown assets, while Lloyds Banking Group was the most popular individual stock. Shares in the bank are equal to 4.5 per cent of drawdown portfolios.

GlaxoSmithKline and Vodafone each account for 4 per cent of investments.

Hargreaves senior analyst Laith Khalaf says: "There is clearly an appetite for growth, as well as income, which suggests investors are saving some of their jam for tomorrow, as well as using their pension pot to produce an income today.

"Passive funds are not yet well represented among drawdown investors. This may change as providers bring new products to the market to fill the passive pension gap."

Sam Brodbeck

INVESTMENT

Octopus in platform talks

Octopus Investments is to add another adviser-facing platform to market its range of venture capital trusts within the coming months.

Octopus offered investors the option of buying and holding shares in its VCTs through Transact for the first time in April this year. The launch of the service followed a change announced in the Finance Bill 2014, which allows investors to buy VCTs directly via a platform. Previously, investors could transfer their holding to a platform only after purchase.

Octopus Investments managing director Paul Latham says: "We are talking to other platform providers that want to market VCTs as well and we will announce that as we get close to launch."

Latham says more advisers want to see VCTs available on platforms they already use.

Capital Asset Management chief executive Alan Smith says: "VCTs are becoming more popular but they have an additional level of risk and can be very expensive.

"I can see how it can be useful for an adviser but, if you consider the management costs, administration costs and platform costs, you have to keep a close eye on what the client is expected to pay."

Valentina Romeo

POLITICS

Govt to net £2.1bn through sale of RBS stake

The Government has announced plans to sell 5.2 per cent of its holding in RBS to institutional investors.

The sale will take place through UK Financial Investments, which holds a 78.3 per cent stake in the bank.

The Government has recruited Citigroup, Goldman Sachs, Morgan Stanley and UBS to act as bookrunners for the sale, with shares offered at 330p per share.

The bank was bailed out in 2008 and 2009, with the Government buying shares at almost 500p.

The £2.1bn raised will be used to pay down the national debt.

Chancellor George Osborne says: "This is an important first step in returning the bank to private ownership. It will promote financial stability, lead to a more competitive banking sector and support the interests of the wider economy."

However, Labour shadow chancellor Chris Leslie says the decision to sell at 330p will mean a loss to the taxpayer of up to £1bn.

He says: "Taxpayers who bailed out RBS and who have now lost out will want to know why the Government has sold these shares at a discount and while the bank is still awaiting a US settlement for the misselling of subprime mortgages.

"Getting back taxpayers' money is not impossible and the Chancellor is dismissing this too lightly."

Mark Sands

Quote of the week

'It's a very dangerous precedent to step in 30 years after a product was sold and say the contract terms are unfair'

EY senior adviser Malcolm Kerr warns of the dangers of Government plans to clamp down on pension exit fees

REGULATION

Ex-trader jailed for 14 years over Libor rigging

A former UBS and Citigroup trader has been found guilty of eight counts of conspiring to rig Libor and handed 14 years in jail.

The conviction of Tom Hayes, a 35-year-old former yen derivatives trader, represents the first conviction for the manipulation of interest rates. In a case brought by the Serious Fraud Office, prosecutors claimed Hayes asked rate setters and traders at UBS and several other banks, and external brokers, to move the rate up or down to benefit his trading positions.

"What this case has shown is the absence of that integrity that ought to characterise banking," the judge told Hayes after a jury found him guilty on all eight charges he faced.

There are already two other trials in the SFO's case scheduled to begin in the coming year and the agency is also probing manipulation of foreign exchange rates.

The conviction comes after the FCA hit out at banks for failing to address risk management issues in the wake of the interest rate benchmark rigging scandal. A thematic review by the regulator found that while "some progress" had been made in improving oversight and controls around benchmarks, the application of lessons learned from the episode had been "uneven" and "lacked the urgency required".

Mark Sands

The week in numbers

3.5%

Growth in UK house prices in the 12 months to July, according to Nationwide

14yrs

Jail sentence handed to former UBS and Citigroup derivatives trader Tom Hayes for his role in manipulating Libor – the first conviction linked to interest rate benchmark manipulation

£461k

Pre-tax profit posted by advice firm Helm Godfrey in the year to April 2015 following a significant restructure 12 months earlier

£731m

Money set aside by HSBC in its half-year results for potential regulatory interventions. The bank increased profits by 10 per cent year-on-year, from £7.9bn to £8.7bn

£2.1bn

Price the Government expects to receive from the sale of 5.2 per cent of its holding in RBS

£198bn

The value of UK life premiums in 2019, consultancy firm EY predicts

£34m

Price paid by St James's Place to acquire discretionary fund manager Rowan Dartington

15%

Drop in pre-tax operating profit in Standard Life's UK division, primarily as a result of the introduction of pension freedoms

GOVT ADVICE REVIEW

Bid to make market function better

Wide-ranging study aimed at breaking down the barriers consumers face in getting affordable help

MARK SANDS

The Treasury and the FCA are to carry out an extensive review into financial advice to establish how the market can function better for consumers.

The review, supported by an advisory panel led by Scottish Widows chairman Nick Prettejohn, will look at efforts to bridge the advice gap and the obstacles that prevent the growth of affordable advice.

Prettejohn will be joined on the advisory panel by up to 15 senior figures representing providers, advisers and consumer representatives.

Members of the panel will act in a personal capacity rather than representing the views of their employers.

The panel will feed into the work of the review, but all executive decisions of the review will be the responsibility of the leadership team, led by FCA acting chief executive Tracey McDermott and Treasury director general of financial services Charles Roxburgh.

The review is expected to generate plans to establish a better broad-based financial advice market and create a clearer regulatory environment, as well as a set of principles to govern the operation of advice.

It will also consider the proportionality of rules, and the implications for the affordability and availability of financial advice, taking in the roles of the FCA, the Financial Ombudsman Service and the Financial Services Compensation Scheme.

Treasury economic secretary Harriett Baldwin says: "Making sure that our financial services sector supports working people at every stage of their lives is a key part of our long-term plan.

"That's why we've launched a major new review to explore what more can be done to make sure consumers can access high-quality and affordable advice so they can make informed decisions with their hard-earned money."

The Government will launch a further consultation later this year on how the state-backed guidance available through Pension Wise and the Money Advice Service can be made more effective.

The MAS is undertaking its own review process, after an independent report recommended a dramatic overhaul of its services, while the announcement also comes two weeks after the Work and Pensions Select Committee also announced plans to investigate the affordability and availability of financial advice.

WHAT HAPPENS NEXT

- Initial work to be completed over the summer, before a consultation in the autumn
- Examples will be submitted of problems obtaining advice on products including investments, savings, pensions, retirement income, mortgages, consumer credit and general insurance
- Consumers will be quizzed on barriers they face in seeking advice, what value they place on it, how easy it is to understand where advice can be found and what it means
- A final report, expected ahead of the 2016 Budget, is expected to provide measures to ensure firms' standards match up with expectations. There will also be a framework to establish how successful any reforms are in closing the advice gap
- Report will also include the estimated resources required to carry out proposals

GOVT ADVICE REVIEW

'Once-in-a-generation opportunity'

An industry-wide welcome for Government's review despite risk of duplication with other inquiries

MARK SANDS

Advisers, trade organisations and professional bodies say the Government's advice review represents a once-in-a generation opportunity to help shape regulation.

The review, details of which are published this week, will be led by the Treasury and the FCA and will look at how the advice market can deliver better outcomes for consumers. Final proposals are expected ahead of next year's Budget.

It will run alongside a Government investigation into exit fees, a Work and Pensions committee inquiry into Pension Wise and pension freedoms advice, and work being carried out by the Money Advice Service following calls for the organisation to be overhauled.

The FCA says it plans to continue its own work analysing the implications of the RDR, but added resources have yet to be allocated.

Institute of Financial Planning chief executive Steve Gazzard says: "The difference is this is a strategic piece of work. Many of the other pieces of work, like on exit charges, are all operational points coming out of pension freedoms because the reforms were implemented with limited or no consultation.

"I hope the interest will remain around the advice market but fear the Government may end up focusing on the issues that are much easier to complain about."

Personal Finance Society chief executive Keith Richards acknowledges there is a risk of duplication and distraction given the sheer volume of work going through Westminster and Canary Wharf.

But Richards is still encouraged that the Government is showing commitment to improving advice.

Gazzard: 'Strategic piece of work'

Richards: 'Positive indicator'

He says: "The fact the Treasury has chosen to publicly confirm it sees the need for an evolution of regulation is a further positive indicator that government is concerned about the impact of regulation more broadly. In part that's because of the importance of pension freedoms to this Government."

But Chase De Vere head of communications Patrick Connolly says: "Everything that is to be analysed is well known, such as the lack of access to advice, and it's difficult to see what the actions or conclusions that will be that can help to improve the situation."

Trade body Libertatem chief executive Garry Heath says advisers must seize the opportunity to shape the regulatory agenda.

Heath says: "Advisers can either sit there and wait for some solution to come along, or they can stop being hostages to fortune and start putting forward what they want to see out of this review.

"This is the best opportunity that advisers have had for 20 years and it isn't going to be here for very long."

ADVISER VIEWS

Chris Williams
Chief executive
Wealth Horizon

The most striking part of this review is it comes close to admitting the RDR created an advice gap. This an excellent first step. If we can recognise advice is valuable and important, then that's a step away from the execution-only services filling the advice gap.

Dennis Hall
Managing director
Yellowtail Financial Planning

This is quite a wide-ranging "we are not saying anything" review at the moment. The fact a report is not due back until next year's Budget means it's not going to be as far-reaching as an RDR review. The Government will be looking for what quick wins it can get.

ADVISERS

Openwork firms set to raise stakes as Zurich eyes sale

Insurer's exit may allow network to 'stand on its own feet', say members

SAM BRODBECK & THOMAS SELBY

Openwork member firms say they are prepared for Zurich to sell its 25 per cent stake in the network and may consider raising their own share as a result.

Last week, *Money Marketing* revealed insurance giant Zurich is looking at offloading its share of the business.

The insurer has appointed investment banking advisory firm Evercore to explore exit opportunities as senior management looks to rid the company of any liability risk associated with the business.

Sources say the move has been sparked by a shift in strategic focus at Zurich.

A source close to the situation tells *Money Marketing*: "Zurich is exploring exit opportunities for the Openwork business. It is clear it doesn't want the regulatory burden of owning an advice network.

"They are focusing on building up general insurance with the acquisition of RSA.

"Owning an advisory business is also open to regulatory scrutiny and that is something Zurich does not want to remain exposed to."

Openwork is 67.5 per cent owned by member firms and 7.5 per cent by an Openwork employees trust, with the remainder held by Zurich.

But member firms say a sale by Zurich would not come as a shock.

Coast to Coast Financial Services practice principal Tony Butler says: "It is something we've been preparing for for a while. As a member we own part of the business and we have plans in place for a sale."

Butler says: "It doesn't worry me that Zurich wants to concentrate on other areas. There is always going to be a need for financial advisers whether it's done with Zurich or not. Zurich are only part of our panel now, so if it wants to sell its products it has to be very competitive."

Appletree Financial Solutions practice manager Nicky Gallagher says: "We don't know what they plan to do with the 25 per cent stake so it's hard to say how it will affect us right now. But I don't think it changes our relationship with Openwork. We have thought about buying a bigger stake and perhaps that could be offered but at this stage we don't know if that will be an option."

Oakhill Partnership partner Peter Lofthouse says: "I don't think it's necessarily a bad thing if the implication of this is we have to stand on our own two feet. It won't make us reconsider being part of Openwork. We are very happy with Openwork since joining three years ago.

"Our last network was becoming less business oriented – they became too scared to do business because of regulation – so it was refreshing to come to Openwork and we're quite content there."

Zurich: 'Wants to shed the regulatory burden of owning an advice network'

25%

Size of the stake Zurich currently holds in Openwork

67.5%

Share of the network owned by member firms

£5.5m

Operating profit delivered by Openwork last year

Last year Openwork delivered operating profits of £5.5m, a 230 per cent increase on the 2013 figure of £1.7m.

Omnis Investments, the fund range launched by Openwork in partnership with Octopus Investments in February last year, attracted nearly £1bn of new investments during 2014, taking total assets past the £2.5bn mark.

Last month, after an in-depth review, the network announced a "radical restructure" that will split the business into wealth, mortgage and protection divisions, each headed by a director.

Last November Openwork took control of MetLife's network of 930 protection advisers, increasing its total number of advisers to about 3,000.

Zurich and Openwork declined to comment. Evercore could not be reached for comment.

Debating the week's news online

Sinking feeling: Winners and losers from Osborne's pensions revolution

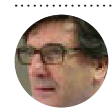
Harry Katz

From the headline the answer is easy:
Winner:
HM Treasury
Losers:
Everyone else

Govt unveils major advice review

Grey Area

The regulator has essentially got what it wanted with the RDR but in the process disenfranchised the majority of the general public. It's like the Government mandating that you can only drive a Mercedes or better. And then wondering why so many people have stopped driving.



James Clancy

As advisers we have to demonstrate we can offer advice at a reasonable cost. But our responses have to be framed in a way that the Government will have to take account of our recommendations. We have the ability to be a powerful force, especially on this review. Let us not squander the opportunity.

Paul Lewis: Unfair FSCS levy punishes honest advisers

Paul Richardson

Speaking for a company that writes a lot of protection, I still cannot understand why pensions and protection are put together in one block and investment in another. Why not put pensions and investments together? It is very unfair as we have never even written a Sipp.

Greg Heath

The current system is lunacy. What worries me is with all the demand for advice created by pension freedoms and the advice gap created by over-regulation, anybody who wants to make a fast buck could abuse the system very easily. They will then leave us honest ones picking up the bill.

ADVISERS

Industry faces adviser gap as life offices ditch training schemes

A third of advice firms seek untrained staff but few have the resources to train them

MARK SANDS

The decline of life offices offering adviser training programmes raises questions about who will educate the next generation of advisers, experts say.

More than a third of advice businesses are looking to recruit untrained staff but few have the resources to handle such a process, warns support services firm Threesixty.

Out of 127 respondents, its survey found 38 per cent of firms wanted to hire inexperienced staff.

Threesixty managing director Phil Young says: "To take on someone inexperienced and supervise them and train them to be a competent adviser is an onerous task.

"What used to happen was that everyone had worked in a life office previously, where they had big training regimes that would also be quite technical. But there are no longer the life company positions to get those people trained up because many firms have shut all that down.

"So now advisers are trying to train their own, but very few firms are geared up for that and there isn't really a breeding ground for new people coming in to the industry."

Mattioli Woods consultant Doug Ryan echoes that view. He says: "The normal flow of people coming in from insurance companies has reduced, mainly because insurers are looking to provide their own advice in future.

So if you have firms that are wanting to grow, then they need to put in place strong training programmes, but it's difficult to get that structure correct and not many firms have that."

Paladin Financial Services managing director Tim Purdon says small advice firms, in particular, do not make enough money to employ staff who are not able to generate income.

He says: "It's going to be some time before that individual will be able to charge fees for his or her services, and during that time they will be a

Few firms are geared up and there isn't a breeding ground for people coming in

loss to the business - and there's a further cost to having someone in your office to supervise that as well.

"Most of us in the industry are of a certain age where we are approaching retirement, so suddenly there is going to be quite a gap in the market and providers might want to think about the problem themselves.

"Maybe they could be training people specifically so that they can then transfer into the adviser sector relatively easily. They are the only establishments that have the margins within the business to enable them to do that."

EXPERT VIEW

KEITH RICHARDS

More positive signs of new blood coming in

There are new routes into the industry that are already being explored, not least the apprenticeship and graduate schemes and the emergence of roles like paraplanners. These allow people to contribute to the business at an earlier stage and some of those, but not all, will stay and develop further rather than moving on.

But it is fair to say the intermediated advice sector is made up predominantly of small firms that do not have the resources to invest in developing groups of people in the same way as banks or insurance companies.

Within planning they cannot take that kind of broad approach and therefore need to be more restrictive with how many new entrants they can induct into their businesses. That has been the case for the past two or three years, but we are starting to see some more positive signs of new entrants coming into the market, and half of our new members last year were trainees to financial services.

A lot of firms are looking at how they can bring new people into their processes.

The Personal Finance Society also has some apprenticeship schemes that are just being formally finalised, including one about to be completed around paraplanners. We are one of the key sponsors for that and there is combined support from across the planning sector because we need to find mechanisms to support both large and small firms.

This has been an area of concern but it is something we are tackling

It is as much a challenge for small firms to understand and to put some time aside, and we and some of the larger firms can play a role in setting the standards.

So while this has been an area of concern, it is something we are tackling, including talking to the Government about whether the costs and risks associated with giving advice are barriers to bringing new entrants into the market and deterring new firms from launching.

Keith Richards is chief executive of the Personal Finance Society

ADVISERS

SJP's in-house DFM deal 'is not a deal-breaker'

SJP buys Rowan Dartington but advisers say they are well served by market

SAM BRODBECK AND LAURA SUTER

St James's Place's plans to tempt advisers into joining the firm by offering in-house discretionary fund management will "not be a deal breaker", say advisers.

In its interim results, published last week, SJP revealed it is buying Rowan Dartington for £34m. The firm says it has long been planning to offer clients DFM services directly and hopes the move will encourage advisers to join.

But IFAs say investment advisers are already well served by the market.

Money Minder Financial Services managing director Ray Black says: "If you're a busy IFA involved in investment management these days there are lots of choices available for discretionary management from all the platforms without the need to tie yourself to one particular company.

"I suspect those that were going to join would have irrespective of whether SJP offers a DFM in-house."

Anand Associates managing director Bhupinder Anand says: "I don't think it would be a deal breaker. There are a lot deeper issues around the decision to join SJP or not than whether they offer a DFM facility. I'd be disappointed if that was the only reason and people who viewed it that way might not be doing enough due diligence of their own."

Rowan Dartington will use the next few months before its acquisition completes to review teams and add staff.

Executive chairman Graham Coxell says the company will need to boost its 100-strong workforce and hire many more client-facing staff to help service new SJP clients.

He says: "The supplementary services, which include advisory portfolio management, direct equity, trust and charity portfolio management, will broaden the range of investment options we can offer to existing clients and enable us to access new clients who value such services. Between now and when get we get regulatory approval, we've already had conversations about what the scalability plan looks like.

"Teams are working through that, it's a case of making sure we have the right people in the right positions to provide a first-class service."

However, Coxell says it is a priority for existing Rowan Dartington clients not to feel pushed out by the likely onslaught of SJP clients. Existing investment executives will continue to work with existing clients, and with new SJP clients "if they have capacity. The priority is absolutely to make sure existing clients are looked after, then to grow the investment executive base to support it in line with the planned increase in new business coming through."

While SJP currently works with a number of DFM services, the firm felt it needed an in-house service to offer clients. Coxell says: "They have around 3,000 advisers, so not having a core group DFM proposition is seen as something that needs to be filled."

There are a lot deeper issues around the decision to join SJP than whether they offer a DFM facility

Rowan Dartington will remain in its Bristol offices, retain its own brand and run as an autonomous business from SJP.

Finer details, such as the charging structure for any DFM services offered by Rowan Dartington for SJP clients, have not been finalised.

The firm's charges currently range from 35 basis points for a collective portfolio service run on another platform to 65 basis points for the same service run on Rowan Dartington's platform. A full bespoke discretionary service is available for around 1 per cent.

Coxell has plans for growth of the business, with it currently having £1.2bn in assets under management.

He undertook a management buyout of Rowan Dartington in 2011, buying it from Astaire Group.

Although not putting an exact figure on his five-year growth plans, Coxell says assets will be in the multiple of billions.

Rowan Dartington was hit with a £511,000 fine in 2010 from the FSA in relation to a £1.4m black hole found in the firm's accounts.

Coxell says the firm was not looking for a buyer when SJP first approached. He is confident the wealth manager will not begin asset stripping, as has happened to other wealth managers. He says: "Deciding to sell Rowan Dartington was one of hardest decisions of my life."

He predicts there will be more consolidation in the industry. He estimates 70 per cent of industry assets are with the top 10 players in the wealth management industry, leaving the remaining 30 per cent with around 100 wealth managers.

He says: "How on earth do these small players offer an attractive proposition to the market in today's regulatory environment? It's about reach and distribution and financial stability. At a macro level we will see more and more consolidation and more vertical integration."

Coxell: 'Priority is to make sure existing clients are looked after'

SPOTLIGHT ON REGULATION

ROBERT SINCLAIR

Net gains

We have a resurgent mortgage market but it is not yet a normal market.

While most accept the £356bn of gross lending in 2007 was excessive, they are also agreed the £138bn to £144bn seen from 2009 to 2011 was abnormally low. The return to £200bn in 2014 and 2015 is an improvement but still short of the £250bn threshold many consider the base of normality.

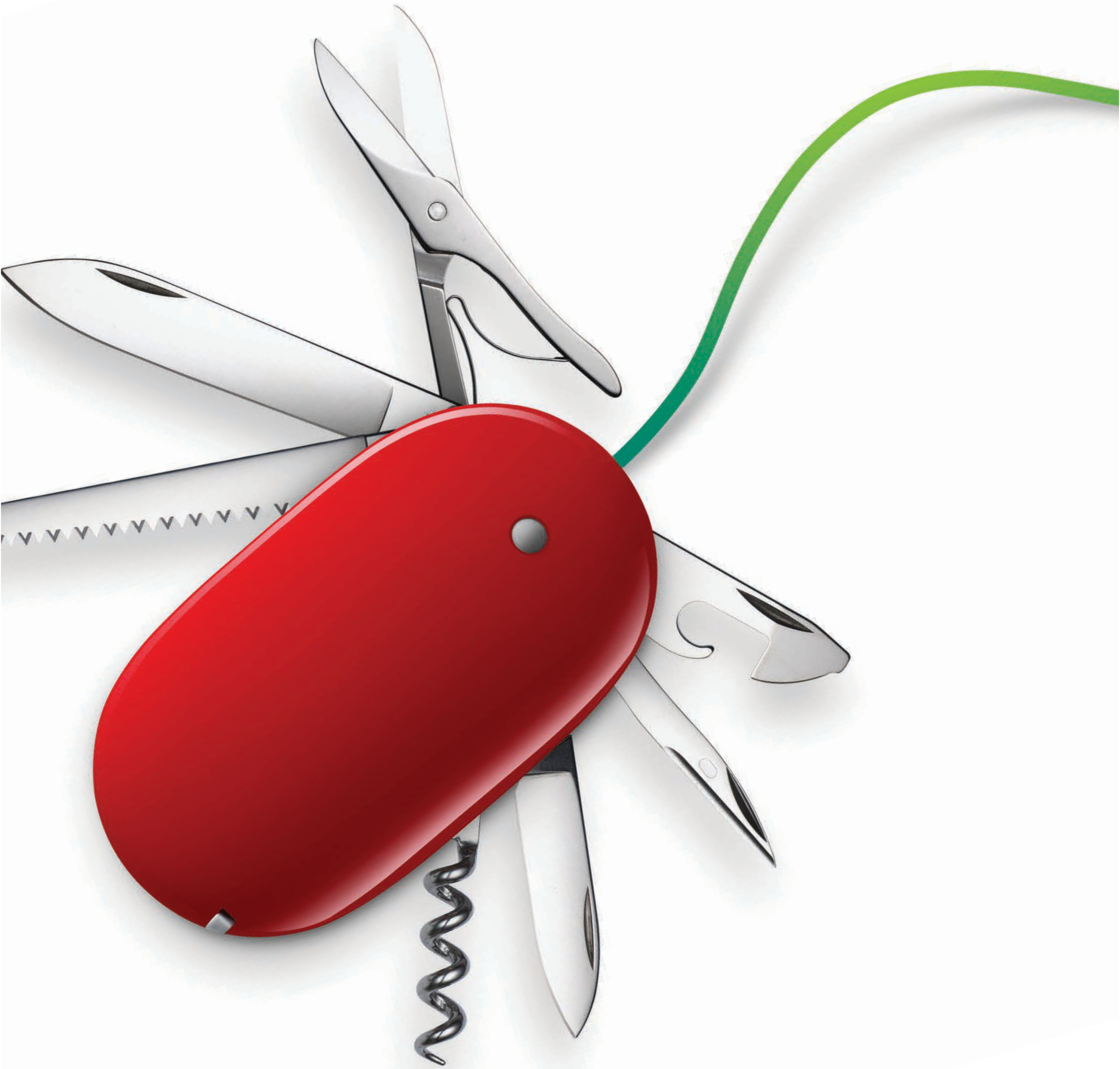
It is not just gross lending that has shifted gear. A more important measure from a broader economic perspective is net lending. Real growth in the total of mortgage balances outstanding is more likely to fuel house price inflation.

The more often quoted gross measure is a proxy for market activity as it drives estate agency, solicitor instructions and valuations – the wider property economy. However, it is the net rate we should consider to debate the likely impact of initiatives on house prices and the wider market.

With UK residential property assets now totalling £5.75trn, the £1.3trn of outstanding mortgage debt looks small. The fact this asset value has grown by £966bn in the last five years at a time when net mortgage lending has grown by less than £50bn indicates it is not increasing mortgage lending that is the main driver of rising UK property prices. The volume and value of cash buyers appears to be the main driver of HPI.

It is for these reasons any attempts by the Financial Policy Committee to curb house price growth, with loan-to-income or debt-to-income caps, are likely to fail. Indeed, all this will do is limit the ability of genuine purchasers who can afford and want to buy from getting on the housing ladder.

Robert Sinclair is chief executive of Association of Mortgage Intermediaries



Investment insight

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ANNA STUPNYTSKA

Commodity price falls dilemma

Central banks and emerging markets have some hard decisions to make following the falls in commodity prices

Recent falls in commodity prices have surprised investors, with many struggling to understand the drivers behind the moves and what it could mean for the global economy. While a supply-driven fall would broadly be good news for developed markets and bad news for commodity-exporting emerging markets, a demand-driven slump could prove negative for the global economy as a whole. So what impact are these price fluctuations likely to have on regions and central banks? The answer depends on individual economies.

What is driving price falls?

In contrast with last year, when excess oil supply arguably drove the fall in prices, the dynamic behind the current situation is somewhat different.

Undoubtedly, the ongoing slowdown in China is a contributing demand side factor as its economy continues to rebalance from investment towards consumption. This slowdown from double-digit growth rates is to be expected and should be seen as a good thing for the country over the longer term as it is crucial its growth model becomes more sustainable.

However, this adjustment is a headwind to the global economy overall, with commodity exporters the biggest losers in the process.

Central banks will be watching closely

Commodity price falls also pose a dilemma for central banks, particularly the US Federal Reserve as the one set to start its hiking cycle first and as lower inflation figures complicate the decision on when to do so.

Low inflation was expected to subside towards the end of this year as the oil price decline dropped out of the figures and base effects kicked in. However, as commodities have sold off again, the Fed faces the prospect of a longer period of low inflation, which could reduce the incentive to hike earlier rather than later.

Rate rise decisions are also being complicated by global factors such as Greece and China. An abrupt slowdown in China's economy while inflation is pushed lower by the resulting fall in commodity prices could represent a double blow to the prospect of any Fed hike this year.

While the US economy is not yet at full capacity, the UK looks to be much closer to this limit, with wage growth having picked up over the past couple of months. Despite a decent growth picture in the UK, sterling strength and the associated downward impact on inflation potentially gives the Bank of England scope to push out rate rises well into next year, until after the Fed makes its move.

Emerging markets vulnerable

Among commodity-exporting emerging markets, Russia and Brazil face the most difficult adjustment. In both countries, the negative impact of the price declines is aggravated by an unfavourable political backdrop. In Russia, sanctions related to the conflict in Ukraine are certainly biting, pushing the economy deeper into recession. Meanwhile, in Brazil, political scandals combined with continued heterodox macro management are also weighing on growth and sentiment. In the world of low commodity prices, structural reform is key for successfully rebalancing towards more productive sectors of the economy. So far, however, neither country has made any material effort to get out of the "resource trap". Both will continue to struggle for now.

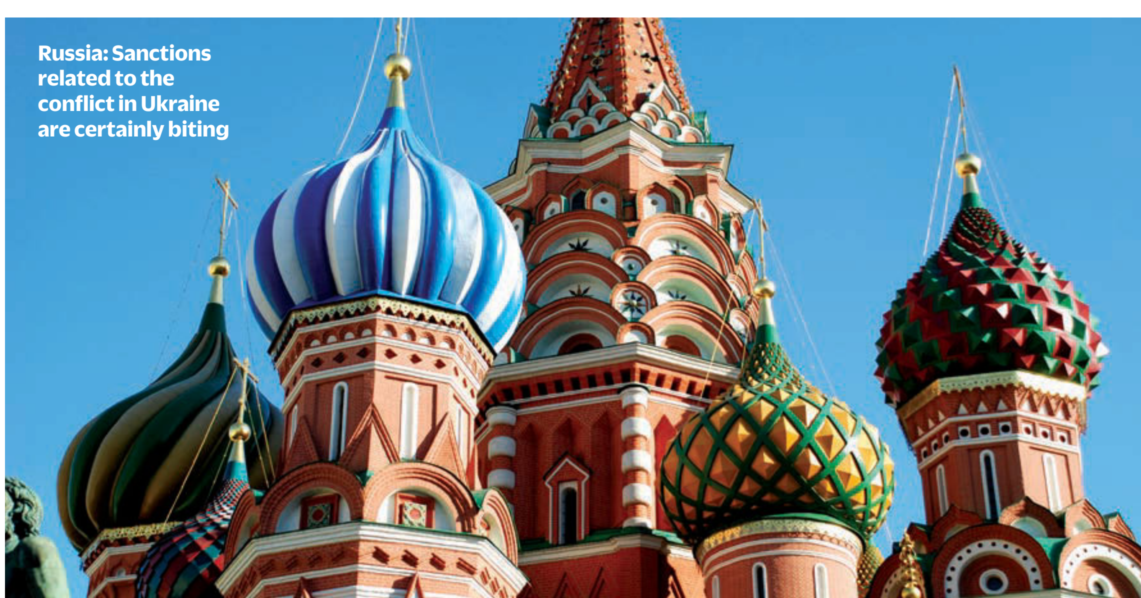
I expect this volatility to continue over the next few months while markets are getting to grips with global growth prospects. The recent moves in commodities are important for investors but they are not likely to significantly change the overall outlook for global growth - at least for now.

I still believe the second half of this year will bring moderately faster and more synchronised growth across the world. Inflation remains low for now, removing immediate pressure from central banks to start tightening policy.

The Fed and the BoE are still likely to be the first major central banks to hike rates over the next few months. Similarly, China's ongoing transition to a more consumer-driven economy continues, with its impact on demand for commodities as clear as ever.

We are likely to see some further volatility as this process unfolds but, overall, China's economic outlook remains positive as it strives towards a more sustainable growth model.

Anna Stupnytska is global economist at Fidelity Solutions



Russia: Sanctions related to the conflict in Ukraine are certainly biting

Retirement insight

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JOHN LAWSON

Pensions as Isas will just never work

Defined benefit schemes are one of the key stumbling blocks preventing the Isa idea from becoming reality

Proposing the idea to treat pensions like Isas and actually doing it are two very different things. Defined benefit pensions are one of the key stumbling blocks that will prevent this idea from becoming reality.

There is no denying tax relief given to pension savers amounts to a large number: £34bn at the latest count, excluding the cost of national insurance relief on employer contributions. It is therefore no surprise that the Treasury is looking at this (again) as a potential revenue saver.

Equally revealing is how this number breaks down between DB and defined contribution schemes. An enormous £25bn, or 72 per cent, of the whole amount spent on tax relief goes to DB schemes. DC pensions, meanwhile, account for just £9.5bn of the total, of which £7.3bn is upfront tax relief and £2.2bn is the cost of gross roll-up in DC savings.

With this in mind, even if you completely "Isa-ised" DC pensions the saving would be only £7.3bn. Meanwhile, DC savers will need some encouragement to lock their savings away until they are 55, so at least some of that amount would have to be spent on another form of incentive.

That incentive will not be generous. Post-auto-enrolment, there will be 15 million DC savers. The £7.3bn figure shared out among this group would amount to only £486 a year per head. This amount of tax relief would imply a total pension contribution of about £2,400 for a basic rate taxpayer, or about 9 per cent of pay for the average earner.

Therefore, even under the current rules, DC tax incentives can hardly be described as bloated.

On the other hand, the average tax relief per active member of DB schemes today is £3,500. A large part of this may relate to deficit recovery contributions. However, given the generosity of DB schemes, where funding rates are now around 30 per cent for most schemes (versus around 9 to 10 per cent for DC), the tax relief cost of new accruals is also substantial.

Some have suggested creating two different regimes: one for DC, in which no upfront tax relief is available, and one for DB continuing under the existing rules. Such an outcome is likely to fail for two reasons.

First, it creates a "them and us" situation, where the lucky minority in DB schemes continue to enjoy tax incentives funded by the majority who do not themselves have access to DB schemes. This is compounded by the fact that most members of DB schemes work in the public sector, where the employer contribution of between 15 and 20 per cent of pay is also funded by all taxpayers.

Taxpayers would be funding pension costs and tax relief for an average public sector earner of £7,500 a year, while the vast majority of (non-public sector) taxpayers receive next to nothing themselves.

Secondly, if the cost of tax relief is to be "sustainable", DB has to be a key target since it already accounts for nearly three-quarters of the total tax relief spend.

It would, of course, be possible to Isa-ise DB pensions by simply removing tax relief.

This might rightly cause employers some angst, particularly in the private sector, where most of these contributions relate to deficit recovery rather than new accrual. Those deficits were run up during a time when tax relief was available, so having the goalposts moved retrospectively would feel unfair.

Removal of employer relief will, therefore, be met with stiff resistance from employers.

Another alternative would be to tax only new accruals, with the tax bill for both employer and employee contributions falling on the employee. Under this scenario, employers would continue to receive both corporation tax and national insurance relief on their contributions.

However, with total funding costs of DB accruals around 30 per cent, the tax bill for a basic-rate taxpayer would be 6 per cent of pay and for a higher-rate taxpayer 12 per cent. Against a backdrop of public sector wage rises pegged at 1 per cent for the next four years, effectively cutting pay by between 6 per cent and 12 per cent would cause uproar among public sector workers and their unions.

For these reasons, the solution that emerges from this consultation is likely to be less radical than the initial soundbites.

But that does not mean the consultation cannot be productive. It can still allow us to address the imbalances in the allocation of tax relief between the better off and the average worker and, as highlighted here, the imbalance between DB and DC.

Tax relief also needs to act as a clear incentive to save, so it must be easily understood and valued. This is why we believe a simple matched contribution – "you pay £2, we give you £1" – is the best and fairest way to tackle these imbalances.

John Lawson is head of pensions policy at Aviva

ANALYSIS

BoE's Haldane: Firms pay out too much and don't reinvest

Fund managers challenge Bank chief economist's view and fear there could be an underlying agenda

LAURA SUTER

UK companies are paying out too much to shareholders and failing to re-invest enough in their businesses. That was the message last week from Bank of England chief economist Andy Haldane.

Haldane said companies were too beholden to shareholders at the expense of other company stakeholders. This was coupled with an increasingly short-termist view among investors, who were holding stocks for short periods.

"In particular, there have been concerns about the rising share of investors with excessively high discount rates and low holding periods - in other words, about 'short-termism'," said Haldane.

In a speech given at a conference in Edinburgh in May, the text of which was released last week, Haldane highlighted a situation a generation ago when dividends accounted for about 10 per cent of profits; today that figure is nearer 70 per cent.

Fund managers take issue with Haldane's view, however, arguing many companies are still investing and, what's more, it is not so bad that they are paying out high dividends.

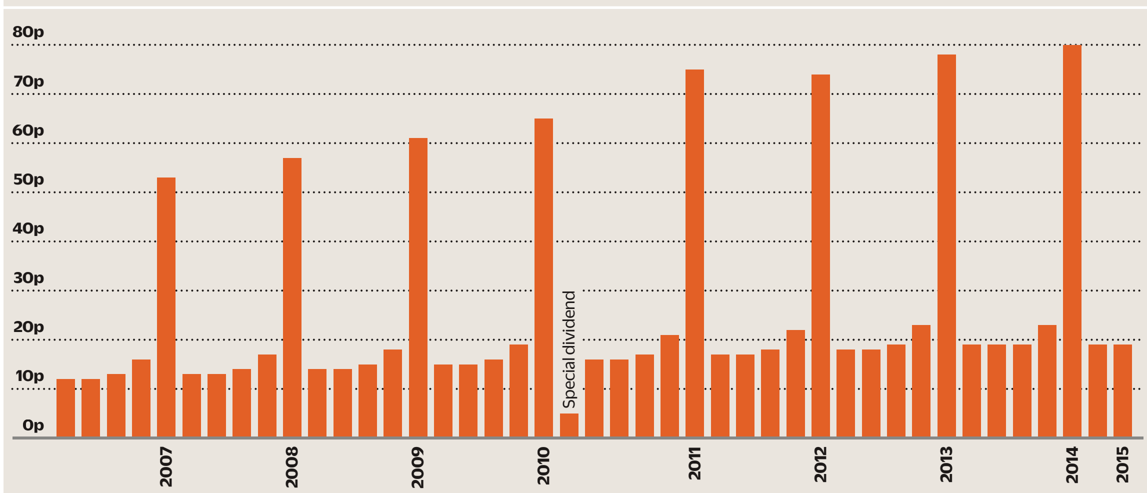
Miton Income fund manager Eric Moore says: "The dream company makes a high return. At the end of the year they have got a lot of cash being generated. Some [of the cash] will reward shareholders now and some will be used for future growth.

"It's the job of management to decide what that balance should be. If they haven't got good things to spend their money on, then hand it over."

Moore gives the example of tobacco firms, which are operating in a dwindling market. While they can work to boost their company's market share, he says there is little point in investing in new production facilities or expanding staff as the market in general is dropping.

Haldane's comments are a "huge generality", according to JP Morgan Claverhouse Investment Trust manager Will Meadon. "There is good capital expenditure and bad capex.

GLAXOSMITHKLINE DIVIDEND PAYOUTS



SOURCE: GLAXOSMITHKLINE

Haldane: 'Companies too beholden to shareholders'

Some companies just don't need more capex."

Getting the balance right is key, agrees Neptune global income fund manager George Boyd-Bowman.

Instead of looking just to strong dividend payers, he says, investors need to hunt out those firms that will be able to grow their earnings and dividends over time, particularly as the current dividend players look expensive at the moment.

"You need to be going up the risk curve a little bit to those companies that have perhaps reinvested in the business over the past five years, which has meant they have not grown their dividend," says Boyd-Bowman.

He gives the example of UK company Devro, which makes sausage skins. It has spent the past few years reinvesting in the business, building new manufacturing facilities, and has kept its dividend flat during that time. Once the company is benefiting from those new facilities he expects earnings to grow by 50-60 per cent, and dividends to grow at the same rate.

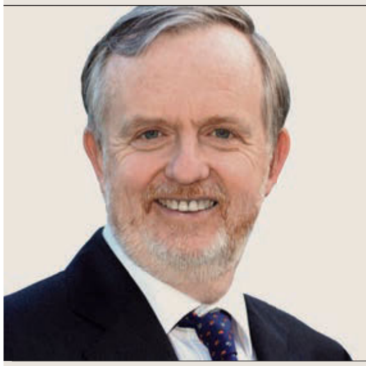
It comes down to good company-level analysis, he says.

Meadon says companies that have to cut their dividend are not necessarily punished by shareholders for doing so. Tesco's share price went up 15 per cent on the day it announced a dividend cut, he says.

On the issue of apparent shareholder supremacy, Moore says what is good for the company over the longer term is good for its other stakeholders, such as employees, suppliers and customers.

> **There have been concerns about the rising share of investors with excessively high discount rates and low holding periods – in other words, short-termism**

COMMENT



MARK DAMPIER

Swimming against the China tide

Fidelity China Special Situations has had a fair amount of bad publicity since its launch in 2010, much of which was poorly informed. My sympathy therefore to Dale Nicholls, who assumed management of the trust in April last year.

However, he has risen to the challenge admirably and patient investors have been rewarded: the trust's share price reached a peak in May this year. Performance was undoubtedly aided by the Chinese stockmarket rally from mid-2014 to early June 2015 but good stock selection also had a material effect.

Given its dramatic take-off, the rally received much media attention. It had two main drivers. Firstly, unlike other markets that tend to be propelled by institutional investment, the Chinese market is dominated by retail investors. Domestic, high-net-worth investors initially began moving into the market after losing interest in areas such as property and private equity. The launch of the Shanghai/Hong Kong Stock Connect Scheme, allowing foreign investors direct access to mainland Chinese shares, drove equity demand higher still.

Secondly, the authorities allowed the use of margin finance (borrowing money to buy shares) to spiral out of control. Stereotypical it may be but the Chinese are well-known, prolific gamblers. The regulators were behind the curve in terms of controlling the level of borrowing and their eventual response was disappointing and heavy handed.

As a government that very much likes to control the economy, it has a much harder time in attempting to control the stockmarket. Suspending shares, importing brokers to purchase shares and preventing the shorting of stocks were among some of the measures employed when the market began a steep decline in June. Incidentally, the prevention of shorting was employed by the European authorities during the financial crisis and I am not sure how effective this was at limiting share price falls. In most cases it is mass selling from ordinary investors that cause most damage. On trading suspensions, only two stocks held within Fidelity China Special Situations were suspended and the trading of one has since resumed. The trust's net asset value was therefore broadly unaffected by the trading suspensions.

Prior to the sell-off, Nicholls increased his short position in A shares listed on the Shanghai and Shenzhen stock exchanges, which are predominantly for domestic investors. This provided an element of shelter in terms of net asset value when the stockmarket fell. He subsequently reduced these short positions and begun adding to his long positions.

The manager feels there are huge valuation dispersions between different areas of the market and is currently finding value in large-cap A-shares. He has also added to a number of smaller companies listed on the Hong Kong Stock Exchange (H shares). These stocks were hit hard when the market fell and he feels they represent good value.

Mass-market consumption remains a key investment theme within the portfolio. Take-up remains low in consumer products such as cars and the manager invests in Shanghai Auto and Brilliance in anticipation of increased demand. The internet is another key theme: only 50 per cent of the Chinese population has access to the web compared with over 90 per cent in the west. As internet use rises he expects businesses such as game developer Netease to benefit.

Nicholls is biased to the consumer sector, which remains his largest sector position. This area lagged through the strong market run and he took this opportunity to add to favoured names. Elsewhere, he has reduced exposure to the financial sector following a period of strong performance.

With the trust's discount standing at 17.5 per cent, now looks like a good time to invest. There are simply too many bears forecasting China's downfall and I would bet against the consensus. This is one of my favoured vehicles to do so.

Mark Dampier is head of research at Hargreaves Lansdown

"If people are horrid to employees, that might maximise profits in year one but it's not a sustainable business, Likewise, if they rip off customers they will just get away with that for a couple of years but they won't be building a lasting business."

Managers say Haldane's assertion that company dividends have grown as a percentage of earnings is true but needs to be seen in the wider context of earnings, which have actually dropped over that time period.

Premier Asset Management Optimum Income fund manager Chris Wright says: "The reason that such a high percentage of profits are being paid out is because profits have collapsed.

Moore adds: "Last year in aggregate for the FTSE 350, earnings went down 2 per cent but dividends went up 3 per cent. That means companies have been distributing more of their earnings over the past few years. Dividends have grown faster than earnings because they have been anticipating a recovery in earnings that has not really happened."

However, risk remains for investors holding companies that have been paying out steady, reliable dividends, which have been used as bond proxies in portfolios amid historically low interest rates, says Boyd-Bowman.

Investors are in for a shock when rate rises occur, he warns, as the valuations of companies considered bond proxies have reached very high levels, and a lot of investors hold them.

"When we entered rate hiking last time, in 2004, these bond proxy companies' valuations on a price-to-earnings basis were on a 25 per cent discount to dividend-paying growth stocks. They are now at a 20-25 per cent premium," he says.

Dividends have grown faster than earnings because they have been anticipating a recovery in earnings that has not really happened

However, there is concern over where Haldane's speech is leading.

Haldane ended his address with a hint at more action, saying "it may be time for a more fundamental rerooting of company law if we are to tackle these problems at source".

Haldane is not the type of person to be "idly lobbing comments out", according to Moore.

He says: "This will be a thought-out piece on his position, it won't be an off-the-cuff thing. There is quite a lot of thought behind this and it could be the beginning of some sort of movement and agenda, so we should pay attention to it."

ANALYSIS

Miton veers from China risks and boosts cash

Multi-asset fund pursues capital preservation policy with commodity and credit exposure cuts

VALENTINA ROMEO

The drop in commodity prices and the fall in the Chinese stockmarket have led Miton's Anthony Rayner to avoid risks in the portfolio and secure more capital into cash.

Since January, and consistently through the year, Rayner and co-manager David Jane have reduced some of the overseas government bonds and credit exposure in the £97.2m CF Miton Defensive Multi Asset fund to guard against further price drops in oil and natural resources.

From June to July, Rayner also sold out of the fund's commodity exposure, a gold position that made up 3.7 per cent of the portfolio.

"We are a bit schizophrenic about gold. We recognise that sometimes it does have diversifying characteristics but gold is impossible to value, it is worse than a currency to value."

On the equities side, the fund cut its position in Japanese equities from 9.3 per cent in June to 6.53 per cent as "China-correlated risks" increased.

Rayner has also ditched US stocks that have exposure to China, cutting overall exposure to the Chinese economy from 7.3 per cent to 5.5 per cent.

He says: "We cut Japan as it is disrupted by what's going on in China. Japan has started to be more correlated to China as well as developed markets."

As a result of all these moves, the managers decided to go more heavily into cash, increasing its weighting from 3.7 per cent in June to 13.09 per cent in July, "but only because we are unsure of how equity markets are going to move".

With this "uncertain" outlook on China and with the Greece crisis continuing to cause uncertainty in Europe, the UK and US markets are Rayner's current favourites.

He says: "The UK and US look better than the eurozone. The [UK] economy is getting on a better footing. Central banks want to raise rates soon, though there is still some deflationary pressure created by commodities.

Rayner: 'Japan has started to be more correlated to China'

"In the UK we are buying into companies not exposed to international markets that are more domestic market-oriented."

Rayner likes mid-caps - particularly housebuilders and consumer staples - and avoids blue-chip companies because most are exposed to the energy sector.

Rayner and Jane inherited the fund from Darwin Investment Management, which Miton bought in June 2014. Since then the managers have changed its name and moved it into the IA Mixed Investments 0%-35% sector.

Rayner says: "Going into the multi-asset defensive sector the fund has got consistent performance and risk objectives, whereas previously that was not that clear."

The fund has maintained the primary focus on capital preservation that its previous management at Darwin established, he says.

Rayner cites interest rate hikes in the UK and US as potential risks to the portfolio.

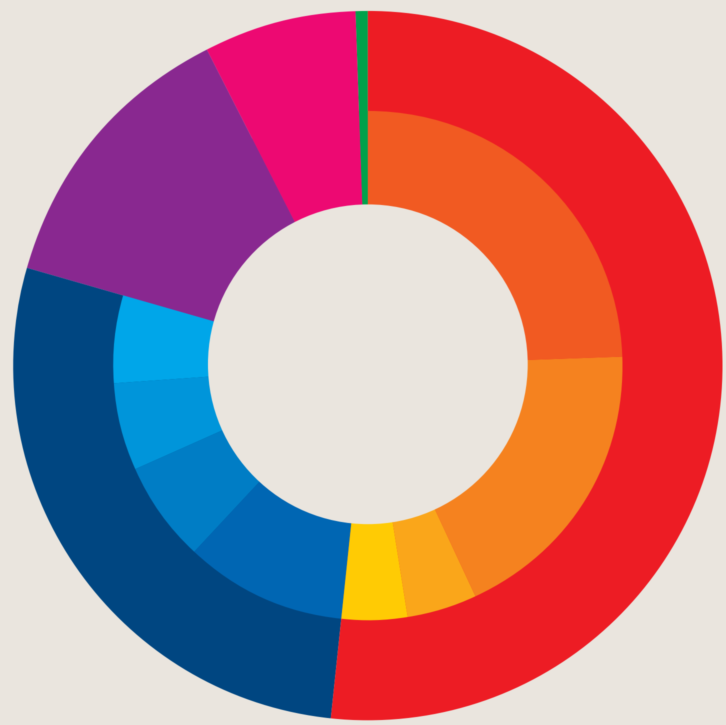
"One worry could be around the pound, which has been quite strong, and that's because generally investors perceive the UK economy to run much more prudently than the eurozone economy, for example. Obviously we are also moving towards interest rates hedging upwards like in the US.

"The market will continue to focus on what [Bank of England governor Mark] Carney does with rates, but what's more important for us is the focus on the context of an interest rates rise rather than when it is going to happen or how much it will go up to."

Rayner also thinks a UK exit from the European Union might be "an issue", but not for some time.

He says: "The market tends to focus on a few things at the same time and now the attention is more on the US interest rates hike and the Chinese stockmarket crisis."

CF MITON DEFENSIVE MULTI ASSET FUND



ASSET ALLOCATION

Bonds	**51.69%**
UK Government bonds	24.55%
UK credit	18.58%
Overseas credit	4.34%
Overseas government bonds	4.22%
Equity	**27.8%**
UK equity	10.22%
Japan equity	6.35%
US equity	5.55%
Europe ex UK equity	5.5%
Cash	**13.09%**
Property	**7.05%**
Currency Forward	**0.37%**

TOP 10 HOLDINGS

UK Treasury Gilt 1.25%	5.7
US Treasury Bond 2.00%	4.6
Vanguard Investments - UK Inv Grade Bond	4.4
S&W Short Dated Corporate Bond Fund	3.7
iShares Euro High Yield Corporate Bond	3.5
UK Government Bond 0.125%	3.4
UK Treasury Gilt 5%	2.9
Gold Bullion Securities Ltd	2.7
Japan Residential Investment Co Ltd	2.6
iShares USD High Yield Corporate Bond	2.6

SOURCE: MITON

We are a bit schizophrenic about gold. We recognise it has diversifying characteristics but gold is impossible to value – worse than a currency

Independent thinking

NIC CICUTTI

Pension Wise looks to be travelling down the same route as the MAS

Govt engaged in a strange mission creep in order to take up the slack caused by lack of users

Is there anyone else out there who feels, like me, that the Government's strategy with regard to Pension Wise is becoming muddled, possibly even dangerously so?

In the past few weeks a number of issues have raised their heads, to the point where it is no longer clear what the true purpose of this advice/guidance service really is or to whom it is intended to reach.

When the Chancellor announced his pension reforms last year, most observers and practitioners - other than the most paternalistic, who preferred the old annuity system because it delivered "certainty" over long-term retirement incomes - felt there were some positive elements to them.

The opportunity to access a slice of one's pension savings more easily than before was welcome to many, even those unlikely to make use of it. It meant in the event of a genuine emergency a pot of money could be available, albeit at the cost of having to hand over some of that cash to the taxman.

Of course, there were dangers to the process, as we all knew. It raised the potential of people asset-stripping their pension pots in search of a short-term financial fix, oblivious - or a least downplaying - the long-term consequences of such a move.

Pension Wise was meant to be the antidote to this. Offering a combination of online, telephone and face-to-face guidance, it was meant to provide the factual information that a soon-to-retire person might need when considering his or her pension options.

The problem with Pension Wise was always that, despite attempts to persuade the Treasury otherwise, it only offered generic guidance as opposed to advice. There is no direct pathway to the kind of person-specific advice which most of the 400,000 annual retirees will need when they finally stop work.

Moreover, as my fellow *Money Marketing* columnist Robert Reid explained in his recent piece, some providers are dragging their heels in terms of providing the kind of service their policyholders have a right to expect.

The result is some would-be retirees are obtaining information from Pension Wise, deciding on a course of action - hopefully the correct one - and then roping in advisers to make good on the admin omissions of providers themselves.

This puts advisers in an invidious position. When Robert chased up a provider on behalf of a client, was this an advised or an execution-only service that he was providing? And what happens if, based on Pension Wise information, a client makes what many might consider to be a wrong decision and then calls an adviser to help sort out the provider's admin failures?

What is even more deplorable is the way the Treasury initially refused to give any kind of detailed information on early take-up of Pension Wise's services.

Since then it has doled out a few snippets: Pension Wise has, we are told, provided 18,000 "guidance appointments" since its launch in April. But it declined to clarify whether these "appointments" were face-to-face meetings with Citizens Advice or calls to The Pensions Advisory Service.

More than 900,000 unique visitors accessed Pension Wise's website, we are told. But again, there is no indication as to how long they browsed the site, how many pages they looked at or what their "journey" was through the site. Critically, we have no idea about the actions they took after their visit.

A year or two, when the Money Advice Service was issuing its own dodgy statistics about users of its website, I was one of many critics who tore into the MAS for giving incomplete and possibly misleading information about its use. It looks increasingly as if Pension Wise is travelling down the same route. To make matters even worse, even as it is unclear who is using Pension Wise and what they are doing as a result of it, the Government has decided the organisation's service will be widened to a large cohort of users, no longer just those 55 or older but now anyone aged 50-plus.

More than 900,000 unique visitors accessed Pension Wise's website, we are told, but we have no idea about the actions they took after their visit

I have nothing against a pensions advice service for all over-50s. I am totally in favour of anyone approaching retirement being able to access information, both general and person-specific, about their retirement options.

I would be happy if Pension Wise acted as an "introducer" to the kind of genuine advice a client might need on how to make the last years count for them financially before they stop work.

But it looks instead very much like the Government is engaged in a strange form of mission creep. It is using Pension Wise in a manner for which it was not intended in order to take up the slack caused by a lack of potential users among those coming up to immediate retirement.

This lack of clarity needs to end. Last month the newly-elected Commons Work and Pensions committee chairman Frank Field said he would be launching an inquiry into the effectiveness of Pension Wise. He is right to do so. The separate advice review announced by the Government this week will also need to shed light on whether guidance is working.

For the pension reforms to work proper advice must be made available and take-up of that advice should be high. Without it millions of pensioners risk an uncertain financial future in the decades to come.

Nic Cicutti can be contacted at nic@inspiredmoney.co.uk
Follow him on twitter @NicCicutti

Agree/disagree with our columnists?

We've had 500 adviser comments on our website in the past month @moneymarketing.co.uk

NEIL LIVERSIDGE

All faith in FOS is lost

Do you have any confidence in the Financial Ombudsman Service? If you do then I suggest you get your head checked pronto. On the other hand, if you want to sell anything I suggest you get yourself down to its offices without delay. The FOS is staffed by the kind of people who, if they were Eskimos, would queue up to buy fridges. Provided, of course, an IFA was footing the bill.

Last month, for once, I was only mildly displeased when I got my FCA bill. Despite forecasts of stratospheric increases, the Financial Service Compensation Scheme element (or "regulatory failure levy") was only up 15 per cent on the previous year. Compared with the 258 per cent the previous year, I took it in my stride. I am sure next year's bill will be bigger. Why? Because the FOS is driving more and more good firms out of business every day, so you can guess where their liabilities will end up.

Last week I heard from Sid, the owner of a small IFA firm near mine. Sid is one of the good guys. I have always found him diligent and honest, trustworthy and fair. So much so that I named him on the shortlist of those my wife should seek advice from should I die. Not any more, sadly, as he is shutting up shop.

The story behind it sent my blood pressure into orbit. In 2011, Sid was approached by an individual who wanted to make his own investment decisions within a Sipp. As requested, Sid researched a suitable product and organised the transfer. The client then engaged another adviser to buy non-regulated investments. He lost his money.

The FOS says it is Sid's fault for recommending the pension transfer. The actual investment adviser the client used was not regulated and the client says he does not know who he was and cannot contact him. Now Sid has been ordered by the FOS to put this client back to where he was. The professional indemnity insurance will cover most of the claim but Sid has lost faith. He is closing down, transferring his active clients to another firm and going to work with them. The FSCS will be left to pick up the bill. Meaning eventually we will pick up the bill. Do I blame Sid? Not at all. Do I blame the FOS? You bet.

The FOS is driving more firms out of business so you can guess where their liabilities will end up

The Eskimos at the FOS see Sid's client as unintelligent and naïve. In reality he is a GP with a property portfolio worth £2m who is a member of the NHS pension scheme. The value of the pension transfer was £40,000. Sid made it clear his advice was restricted to selecting a suitable Sipp for the transfer only and the client signed an agreement to that effect. The FOS disregarded the lot. Yes, Sid could litigate but his is a small firm and the FOS knows it. If he goes to court the FOS will fight him with his own money and ours. Among the qualities that define a society as civilised is the integrity of its systems and processes. The FOS has no such integrity. It needs reform now.

Neil Liversidge is managing director of West Riding Personal Financial Solutions

NICK BAMFORD

The care necessities

The topic of care fees planning was high on the agenda at a recent team meeting. Our guest speaker, Partnership's Martyn Halls, shared some very interesting statistics. Apparently, there are currently some 431,000 people in residential care homes, out of a population of 3.7 million aged over 65. There are also more than 821,000 over-65-year-olds who suffer from dementia, with this number set to rise dramatically in the coming years.

As we live longer and suffer the consequences of old age (both physically and mentally) there is going to be a growing demand upon financial resources to ensure quality of care in later life.

Of those people seeking impartial, professional advice on the subject, only 7,000 get it from a "qualified" adviser. That sounds to me like a huge opportunity for the IFA sector. It is pretty much a given that those seeking care for their elderly relatives have the quality of that care high on their agenda.

Another key concern is to protect as much of the relative's estate as possible in order to ensure anticipated inheritances are not significantly or entirely eroded.

The post-war baby boomer generation is very much the sandwich generation, having to potentially balance looking after their children and elderly relatives. Care fees planning represents one of those things they need to do well. And who is better placed than an IFA to balance those two key needs and wants?

When you look at the average costs of care at home or in a residential care facility, it is easy to see how a modest estate might be significantly eroded, particularly when considering one in eight people will be in care for at least seven years of their life.

Often, when putting a financial plan together for a client, one of the "what if?" scenarios they ask us to consider is the cost of care. The challenge, of course, is the start and end date of care requirements are simply unknown.

As planners, we ignore the demographic destiny of this country at our peril

The adviser will also have to deal with some of the common myths associated with this subject, such as the one involving giving everything away and making a local authority pay. Deliberate deprivation is never the panacea some think it is.

With the recent news the £72,000 cap on care fees is to be delayed until April 2020, it is clear those with the financial resources to pay for care will have to pay for care. Even those in the "fortunate" position of securing local authority or NHS funding for their care needs might prefer to pay for a higher standard of privately delivered care in later life.

As financial planners, we ignore the demographic destiny of this country at our peril. Those of us who choose to focus on retirement and investment planning are quickly realising the challenges of managing decumulation of assets. Care fees take this decumulation planning to another level entirely.

Nick Bamford is executive director at Informed Choice

What advisers are saying

ON THE WEB

This is a small selection of the debate taking place online at moneymarketing.co.uk

We also like to receive letters to the editor, which can be sent to natalie.holt@centaur.co.uk or 79 Wells Street, London, W1T 3QN

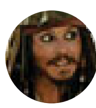
Comment related to article: Treasury threatens blanket charge cap in exit fees clampdown

This Treasury paper is well worth a read if only for the flowery language it adopts. The range of words used to get to the point where the reader is asked to answer a question about exit charges includes: unjustifiable, disproportionate, excessive, unfair, significant and prohibitive

But my favourite part states: "where it (the exit charge) is so high that even those with larger pots regard the level of charge as prohibitive. In these circumstances, the level of the charge might be considered disproportionate and therefore unfair and excessive."

This is so subjective as to be next to useless.

Nick Bamford



Comment related to article: FCA and FOS set for industry talks over pension transfers

A code of conduct is totally useless. Experience has shown no matter how hard advisers try to do their best for clients, those who complain about advice when things go wrong invariably win their case. Is it any wonder professional indemnity insurers do not want to touch this with a bargepole when advisers generally feel the same way?

Marty Y

EDITOR'S COMMENT OF THE WEEK

Is exit fees cap genuine or a reaction to negative coverage?

Is the cap on exit fees a genuine "idea" or simply a reaction to negative media coverage?

I am led to believe there are some providers that impose exit penalties on contracts still being arranged now. Perhaps that needs consideration in a world of non-commission, fee-based advice? If the cost of advice is upfront and paid for at the time given, why charge penalties if a strategic change is subsequently needed?

Second, if the Government is proposing it will ride roughshod over contractual agreements between a pension provider and their client, then that is concerning. Frustrating as it may be, can we genuinely review charges of old contracts through the lens of modern, lower cost, IT-based, remotely managed contracts?

Maybe I should give advice for free just in case in 30 years time a Government or regulator deems the cost of advice today to be relatively expensive.

Paul Stocks

Plenty of advisers are giving transfer advice, and a fair number of those advisers are offering cheap, poor quality "rubber stamp" advice, with PI insurance which woill not pay out and firms which will not be around when claims come through in years to come. There is currently more pension transfer advice being given than ever before. Ignoring the problem means higher FSCS levies in future.

Phil Young

ADVISERS

PHIL WICKENDEN

Focusing on what matters

The importance of understanding how customers are using your products and services and what experience they have with you features somewhere on the first page of the Mickey Mouse guide to marketing.

This understanding was probably there at the birth of nearly all successful businesses. But the tendency, as alluded to last week, is for businesses to gradually shift from really knowing their customers by being close to them to assuming they know what their customers need.

They become absorbed with internal processes to reduce operational costs and increase profit margins. As focus turns inward, they begin to lose their focus on the customer. They assume they still know their customers. It does not matter how much regulatory pressure there is, this is seriously dangerous.

The fact is, things change: customers' needs change, their expectations change and the competitive environment changes.

In 1996, Interbrand ranked Kodak the fourth most valuable brand

Q: SELECTION OF IFA QUOTES ON THEIR BUSINESS'S MISSION TO THEIR CLIENTS:

"We take people from where they think they are to where they know they want to be."

"Your life. Your money. Make it count."

"We help you to do what you would do for yourself if you had the time, the knowledge and the experience."

"Financial planning - knowing how much you can blow now and still have a half decent income in retirement."

"Financial planning - seeing your financial future and doing something about it."

"Helping your money behave so you can live your life."

Your two cents worth?

We've had 500 adviser comments on our website in the past month
@moneymarketing.co.uk

Comment related to article: Ombudsman rules against 'woefully inadequate' Hornbuckle

If providers took note that negative as well as positive publicity is shared within our community, they would realise in cases of error it really is best practice to come clean and work with us and not against us. This would deliver a good outcome for everyone, especially our mutual clients.

Alan Mason

Comment related to article: Phil Young: Cracks are appearing in client reviews

The biggest hindrance here is antiquated back-office systems which still revolve around the concept of new business or cases. There has to be new money or something like that to trigger the system to recognise the review.

I have for some time asked one provider to do this although I believe they are now addressing this issue. My argument was a client review is subject to the same compliance checks and audit as a new case would be even though all you may be doing is rebalancing a portfolio. One way around it may be to add a nil fee case or some other workaround.

For ourselves, a good diary system is imperative and our business process/client agreement helps but for mature businesses it is not easy.

Sam Caunt

The commitment is to review, who said this requires a meeting? Your client is paying for what you do for him/her and your process, not for a meeting unless necessary. Promising face-to-face meetings as a matter of course makes your business self-limiting. Meetings should be where needed. Value your process.

Tony Gordon

Comment related to article: Govt to review pension freedoms advice impact

There is some genuine confusion here which is also mixed up with the FCA rules on when a pension transfer specialist is required.

Providers are all over the place, some requiring advice for anything even below £30,000, some only safeguarded benefits and some all of them, and then to top it all half are saying they will only do it if the advice recommends the approach and completely ignores fact that individuals can choose to do whatever they want.

We have lots of examples of this. The rules are clear but the Government needs to help providers out of their quandary by telling them exactly what they should accept or not. Otherwise we will never solve this.

Jane Hodges

in the world, just behind Disney (Mickey clearly practising what he penned in his eponymous business strategy text), Coca Cola and McDonalds. Today, on the stock-market, Disney is worth \$179.5bn, Coca-Cola is worth \$179.9bn, McDonald's is worth \$92.5bn and Kodak has not long ago emerged from bankruptcy.

The smash and grab emergence of the digital format has been a big factor but, ironically, in 1976 it was Kodak that invented the digital camera then systematically failed to do anything with it. This failure paints a stark reminder of the cost of missed opportunities.

As customers were getting on board celebrating the arrival of the digital revolution, Kodak management stayed the course with its traditional film and camera lines. Believing its loyal customer base would never desert its famous products with the yellow and red logo, a somewhat arrogant leadership ignored what was happening around them.

That is an extreme example but when you really know why your current customers are choosing you over your competition, you will know what to do to both retain them and attract new clients. First, however, you must get to the real reasons why customers do business with you. Otherwise, you will end up with meaningless information like almost everybody else wastes their marketing efforts with. You have seen it: "independent financial planning" and "friendly, professional advice".

When a business knows why consumers should do business with them, and knows why current customers do conduct business with them, they have the information necessary to focus relentlessly on the stuff that really adds value and sets you apart. The rest is waste.

Phil Wickenden is managing director of So Here's The Plan

AT THE COAL FACE

CARL LAMB

Madhouse levy system must change

I have always been a supporter of tighter regulation and the cleaning up of our industry. Greater transparency and protection for the client is hugely important and the loss of some of our community's less professional players has certainly been for the good. However, it is becoming increasingly clear the way we provide protection for clients and pick up the pieces when things go wrong is just not working any more.

Why do I feel that way? I (along with every other IFA firm principal up and down the country) have just received my latest bill from the FCA. Shockingly, I have seen a staggering 116 per cent increase on last year. And I am not alone.

One principal with whom I have spoken reports an increase of 319 per cent since 2013.

Firms simply cannot sustain that level of input. Of course, the problem will escalate as the impact bites: every increase knocks a few more firms out of the industry, leaving the increasing demands of the FCA and the Financial Services Compensation Scheme to be shared out among fewer and fewer companies.

We have seen the FSCS is paying out more amounts of compensation to clients of investment firms which have gone out of business: an increase of 156 per cent in the year 2014/15.

Yes, these cases must be compensated but the issue I have is with the direct relationship between the compensation fund and advice firms.

At the end of the day, it is the client who ends up paying, with increased costs being passed on as increased fees. Every firm principal I have spoken to has confirmed they have been forced to raise fee levels. The days of unscrupulous advisers reaping "fat cat" profits are long gone.

Margins are now tight and the day is getting close when the remaining good firms decide there is no chance of continuing to be profitable without making advice unaffordable.

I am tired of being held responsible for compensating clients of bad firms which have let them down in the past.

What other industry expects those who have obeyed the rules and played fair to stump up the cash to help the customers of those who were less honourable? It is the dynamics of the madhouse.

It is time to throw away the broken model and start again. There needs

There needs to be a fresh, innovative approach to planning ahead so advice can remain accessible to all without penalising those who work hard to deliver a professional service

to be a fresh, innovative approach to planning ahead for the industry so advice can remain accessible to all without penalising those who work hard to deliver a transparent and professional service.

It is no exaggeration to say the advice sector has reached a tipping point. It will only take a little more pressure to send it crashing over the edge.

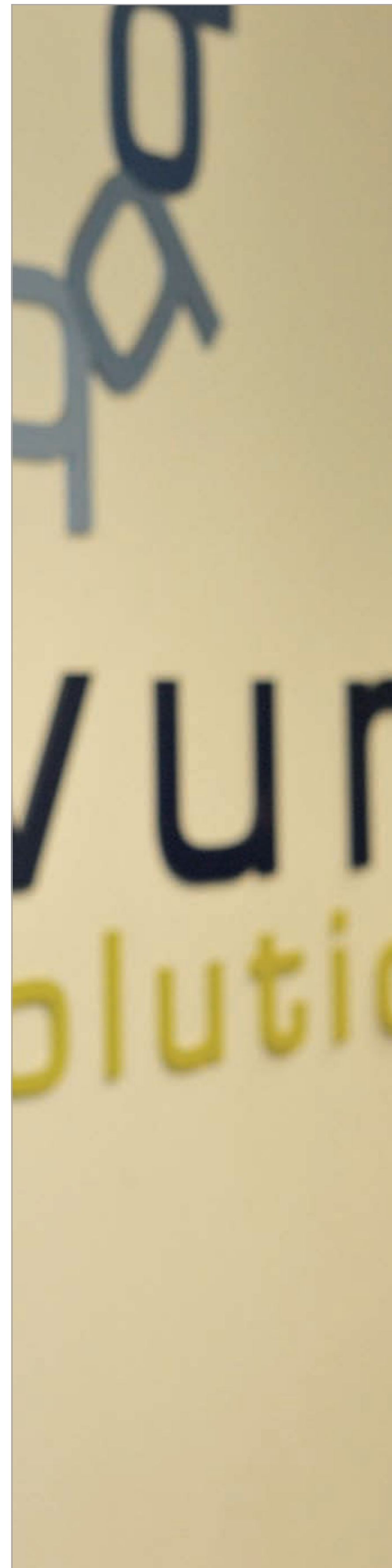
From my side of the fence, the most sensible solution seems to be to impose a levy on each policy or plan sold. Others may have alternative suggestions but let us at least have that debate. And let us do it now while we still have an advice sector to save.

Carl Lamb is managing director of Almary Green

Do you agree with Carl's views? Join the debate
@moneymarketing.co.uk

TONY KLIM

‘Pension reforms have caused much strife but will mean product innovation’



Bravura Solutions chief executive on why financial technology is key to supporting pension freedoms

AMANDA NEWMAN SMITH

Bravura Solutions group chief executive Tony Klim was lucky enough to work through the “golden age” of UK software in the 1980s and 1990s, when banking was becoming high tech with the introduction of credit card systems, online payments and secure networks. Now he is anticipating another exciting era in financial services technology as pension freedoms create a need for product innovation.

“While the pension reforms have caused much strife across the industry, they will also result in product innovation, which is something we have not seen for some time. People do not need to buy an annuity so companies are looking at how to hold on to assets through flexible and guaranteed models. We are already working on some interesting new models around guaranteed products and flexible drawdown. It is great for us because technology is needed to support new products.”

Klim admits keeping up with the pace of change in the rules and regulations is no easy feat. But the move towards greater individual responsibility for retirement planning came as no surprise to him.

Back in 1999, in his early days at Marlborough Stirling, Klim predicted this shift would create huge growth opportunities and demand for software solutions.

“One of the main problems is the rate of change and our clients need to react reasonably quickly,” he says.

Bravura, an anglo-Australian firm providing software services to wealth managers, fund managers and insurance companies, believes the platform industry is the logical place to deliver the product innovation needed for the new pensions environment.

Klim says Bravura and its clients are particularly happy with the scale of opportunity that lies ahead, although the need to offer attractive and innovative new products is also challenging, not least for platform providers.

He says: “Platforms will encompass traditional life and pensions, and possibly even banking, across multiple delivery channels. Far too many people focus on platforms as a business model. In reality, we are just talking about the infrastructure for the next-generation financial services business.”

Bravura has spent a huge amount of money on developing its Sonata technology as the “next generation” platform across investments and life and pensions globally. Sonata is Bravura’s life and wealth management administration system that enables the firm’s clients to be more efficient and reduce running costs by connecting and engaging with their clients through a range of devices including a desktop or laptop computer, tablet or smartphone.

“As with all major step functions in technology, it has taken longer and cost far more than we initially envisaged, but we are now getting significant traction on both sides of the world.

“Unlike some of the other players in the market, our focus is solely on software and software as a service rather than administration. This means we are able to service both administrators and product providers alike. It is a business model that we have successfully deployed across the fund management industry for many years.”

Unlike some of the other players in the market, our focus is solely on software and software as a service rather than administration

Klim started his career with his feet planted firmly in the technology side of financial services. He got into software development once he realised his teenage ambition of becoming a rock guitarist was not to be. “I know it sounds corny but I so wanted to be a rock star,” he says. “My air guitar skills didn’t make the grade but I did graduate to a real guitar. I became a blues and jazz guitarist. I got to the point where I was practising three hours a night and ended up in an amateur rock band but I still didn’t make the grade,” he says.

Movers and movers on

FIVE QUESTIONS

What's the best bit advice you've received in your career?
Don't sell technology; sell the business benefits of technology.

What keeps you awake at night?
My two daughters finding their way in life.

What has had the most significant impact on financial advice in the last year?
It has to be the changes to the pensions/annuity rules in the 2013 Budget.

If I was in charge of the FCA for a day I would...
Openly encourage more innovation in online advice.

Any advice for new advisers?
Embrace technology to make your job easier.

CV

2008-present: Chief executive for Europe, Middle East and Africa, Bravura Solutions
2002-2008: Independent consultant working with various financial services and private equity firms
1998-2004: Managing director, UK operations; chairman, Marlborough Stirling subsidiary Exchange FS; and director, group strategy, Marlborough Stirling
1994-1998: Director of international marketing and product management, Deluxe Data Corp
1985-1994: Director of international business development, managing director, open systems division; and director, consultancy services, The Software Partnership
1981-1985: Technical consultant/senior systems engineer, Systems Designers
1979-1981: Analyst, Software Sciences

At school, Klim shone at mathematics and, after graduating from university with a physics degree, became an analyst/programmer at Software Sciences, now IBN Data Sciences, working on defence systems. He then joined Systems Designers, now EDS, working in secure communications networks. "In the early 1980s, these skills became very much in demand in banking with the emergence of card technology and online payments," he says.

In 1985, Klim joined The Software Partnership and moved into the business side, encompassing distribution. "The Software Partnership was an amazing business that was set up by a group of like-minded entrepreneurial individuals. It went on to be a pioneer and market leader in online banking technology before eventually being acquired by a very large US corporation. I learnt a huge amount about high-growth companies and international business at that time through working with partners across the US and in Asia. We got a number of major banks using our system in the pre-internet banking era."

Klim joined Marlborough Stirling in 1999 and led the integration of the Exchange portal. He left the group in 2004 due to an internal restructure and spent the four years prior to joining Bravura Solutions as an independent consultant.

"I worked as an independent consultant with a variety of financial services businesses and private equity companies. A key theme was the changing UK value chain in financial services distribution and the emergence of platforms. This was an area of interest that I had started to develop when working with the Exchange IFA portal at Marlborough Stirling. Platforms were almost a logical extension of the portal."

For Klim, the future of the platform industry lies in its supporting technology. "Technology is very much on the agenda again as modern platforms need to cover multiple channels: advised, discretionary, execution only and potentially online advice. Scalability and admin efficiency will become even more important with the continuing squeeze on the overall value chain. Shaving a few basis points off the admin cost model through use of modern technology can make a significant difference to the profitability of a platform. Multi-channel servicing and admin efficiency is the key to how platforms will make money."

Sectorfocus

Japan

Unloved or misunderstood?

Japan's huge structural changes make for a multi-layered and appealing investment case

GILL HUTCHISON

Even after 25 years of mediocre economic growth and with a stockmarket in the wilderness for most of that time, Japan is still the third-largest economy in the world.

The equity market has traditionally been seen as an uncorrelated play within the developed world, very much dancing to its own tune. In reality, that was always questionable as, broadly speaking, the market only made significant progress when foreign buyers were at their most enthusiastic. Japanese institutions have been wary of equities since the peak of the bubble in 1990 and while individual domestic investors have occasionally dipped in, it tended only to be when the market was showing significant momentum.

Economic and monetary policies since 1990 have been hewn from the perspective of ever-increasing levels of desperation from the authorities as they attempted to fight sclerotic economic growth.

On a relative basis, the Japanese economy fared quite well through the global financial crisis, with domestic banks having limited exposure to the securitised and leveraged world prevalent in western institutions. However, the crisis led to a substantially weaker global environment, leaving Japan with nowhere to hide. With government debt spiralling out of control, another solution had to be found, particularly after the devastation caused by the 2011 earthquake and subsequent tsunami.

Abe to the rescue?

At the end of 2012, Prime Minister Shinzo Abe was swept into power on a reform package to end the decades of stagnation. Collectively, his plans are known as the "three arrows" and are designed to encourage Japanese companies, investors and the government to work together to solve the country's malaise.

Arrows one and two have already been fired. The Bank of Japan has undertaken quantitative easing, while fiscal policy has remained very flexible to foster growth. The third arrow of structural growth through reforms inevitably yields less immediate results but there has certainly been some progress in areas where reform is needed most, notably in corporate tax and governance, agriculture and healthcare.

Perhaps the most obvious manifestation of the third arrow is the focus by companies on improving and maintaining a higher return on equity. The creation of the JPX-Nikkei 400 index, with its profit and ROE threshold targets, is the most tangible manifestation of improving corporate governance. The creation of a stewardship code for investors and the introduction of the corporate governance code have also been supportive.

The implications of these changes are significant. A market that was once dominated by mean-reverting stocks should now have healthy competition from secular growth ones, where strong and growing profitability will be the measure of success. Japanese fund managers have a great opportunity to exploit this sea-change as it develops.

What to buy?

We currently feature five funds from the IA Japan sector from four different market cap and style categories.

Schroder Tokyo (larger-cap; blend style)

Managed by a very experienced Japanese equity market practitioner with a balanced approach that is grounded in company analysis. The Japanese franchise is well resourced and has extensive local presence.

Baillie Gifford Japanese (larger-cap; growth style)

A growth-oriented Japanese equity portfolio managed by a highly respected team, who apply a long-established and disciplined investment approach. Proprietary research and low turnover are hallmarks of the approach.

GLG Japan Core Alpha (larger-cap; value style)

Offers investors exposure primarily to Japanese large-cap equities and is managed with value-biased and contrarian style, according to a long established, disciplined approach.

Invesco Perpetual Japan (larger-cap; value style)

A valuation and conviction-driven Japanese equity fund that invests across the market cap spectrum. An eclectic style leads to a unique performance profile, which is often at odds with the benchmark and many recognised peers.

Legg Mason IF Japan Equity (smaller-cap; growth style)

A concentrated Japanese equity fund with a focus on smaller-cap companies with high growth prospects from domestic-focused businesses. It is a high-risk approach offered by a very experienced manager.

These managers are united by the length of experience in this market, if not by investment styles. They are the survivors of the most testing kind of market, punctuated as it has been by relentless false dawns at the economic, political and market levels.

Structural change is occurring at a time when valuations are not excessive, corporate profits are strengthening and the economic outlook is improving.

This makes for a multi-layered and appealing investment case: a rare commodity in today's global equity landscape.

Gill Hutchison is head of investment research at City Financial

Fund of the month: Neptune Japan Opportunities

TAHMINA MANNAN

Taylor basks in Abe's glow

Manager capitalising on Prime Minister Shinzo Abe's drive to depreciate the yen

With a 30-year bear market, a 20-year stretch of deflationary malaise and a nation with vast public debts, Shinzo Abe's entry into Japanese politics could not have come a moment sooner.

The prime minister's confidence-inducing policies have spurred investors, both domestic and foreign, to pile in to Japanese equities over the past two years - some pocketing returns of more than 50 per cent as the Tokyo equity markets continue to be buoyed by the warm glow of Abenomics.

Abe has been keen to weaken the yen so large domestic firms can start to earn big profits. This means them paying more tax, as well as paying staff more, which all goes some way to reducing Japan's large debt.

The Nikkei is at a level not seen for more than 15 years but, with valuations still at depressed levels, there are some who believe the Japanese revival is just getting started. One fund that has ridden the wave of returns is the £592m Neptune Japan Opportunities portfolio, managed by FE Alpha manager Chris Taylor. Taylor celebrated a decade in charge of the five FE Crown rated fund back in May 2005 and is being tipped by many as the man to make the most of Abe's policies.

Taylor firmly believes Abe's plan to reignite the Japanese economy has, for the first time, aligned the interests of investors, the central bank and the government like never before. The Neptune Japan Opportunities fund is entirely shaped around Taylor's macroeconomic view that the country has no choice but to depreciate its currency to increase the value of overseas earnings, and thus pay higher corporation tax. Taylor has a hedge against the yen, which should protect sterling investors if the currency depreciates.

He has capitalised from Abe's drive to weaken the yen by focusing on Japanese companies that generate the majority of their revenue away from Japan. Not only does this help the companies' profit margin but they also stand to benefit from yen weakness. The fund also benefits from Neptune's method of researching industries across the globe. The research team, headed by Taylor, analyses companies best placed to be successful and are cheaper than they should be.

Taylor tends to concentrate on large and upper middle-sized companies such as Toyota, Nintendo and Sumitomo Mitsui Financial Group. The portfolio is typically made up of around 40 to 50 companies and has a low turnover compared with its peers.

As a result of the fund's position in Japanese exporting companies and a rising equity price environment, it has benefited greatly over the past three years. It sits in the top 10 funds list in its IA Japan sector over the past three and five years, returning 106 per cent and 70 per cent respectively.

Its sector, in comparison, has returned around 52 per cent and 53 per cent respectively. The Topix index, the fund's benchmark, has returned around 55 per cent and 51 per cent over the same periods.

Taylor's decision to actively hedge against currency movements has benefited the fund at a number of points, including 2008 when the manager delivered more than 80 per cent even though his peers and benchmark lost money. This has helped the fund to achieve top-quartile returns of almost 180 per cent over 10 years, according to FE Trustnet data.

Industrials make up almost a third of the fund's holdings, with 30 per cent of the portfolio. Basic materials make up the next 20 per cent.

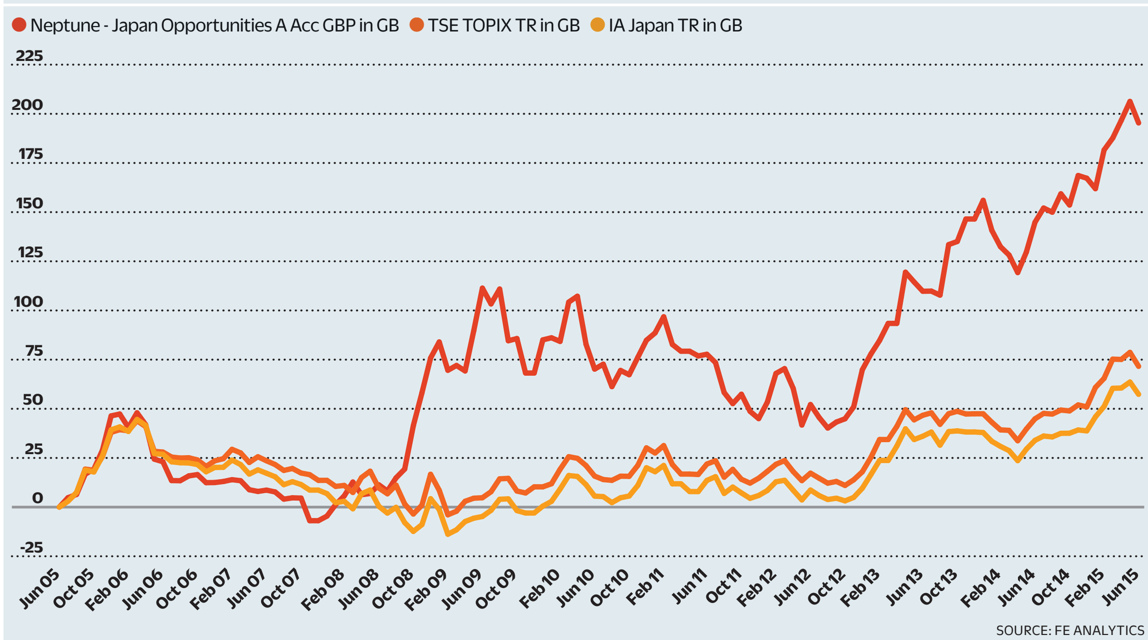
With most funds this concentrated and therefore volatile in nature, investors should buy and hold for at least seven years to ride out sharp, stock-specific shocks. It is worth noting the fund's yen value is hedged to protect sterling investors, which goes some way to explain its behaviour.

Abe's commitment to weaken the yen further should benefit this fund, especially as the US and UK look set to hike up interest rates and the value of their currencies as soon as the autumn.

Investors should note any move away from money printing would diminish the fund's advantage. If Japanese stocks outperform, the fund is also likely to underperform its peers.

Tahmina Mannan is market and industry content editor at FE Trustnet

FUND PERFORMANCE VERSUS TOPIX AND IA JAPAN



SOURCE: FE ANALYTICS

KEY FACTS

Sector: Japan
Benchmark: TOPIX
AUM: £592.2m
Launch date: 30/09/2002
Management: Chris Taylor
FE Alpha Manager rated: Yes
FE Crown Fund Rating: 5

Taylor: Focuses on large and upper middle-sized companies

IA JAPAN

FUND PERFORMANCE

TOP 3

BEST PERFORMING FUNDS OVER 3 YEARS	3YR
Lindsell Train Japanese Equity	137.9
Legg Mason IF Japan Equity	132.14
Neptune Japan Opportunities	102.14

WORST 3

WORST PERFORMING FUNDS OVER 3 YEARS	3YR
Fidelity Japan	37.38
Schroder Japan Alpha Plus	25.14
Scottish Widows HIFML Japanese Focus	23.93

TOP 3

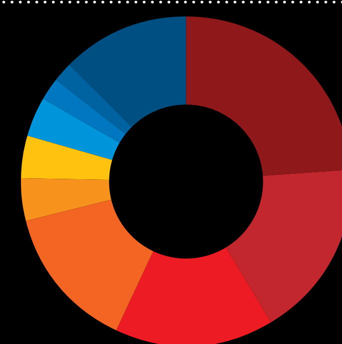
BEST PERFORMING FUNDS OVER 5 YEARS	5YR
Legg Mason IF Japan Equity	236
Baillie Gifford Japanese	80.26
JPM Japan	72.94

WORST 3

WORST PERFORMING FUNDS OVER 5 YEARS	5YR
Fidelity Japan	28.24
Schroder Japan Alpha Plus	23.14
Scottish Widows HIFML Japanese Focus	21.65

	Name	Size 6m ago (£m)	Size now (£m)	Performance effect on size (£m)	Underlying approx in/out (£m)
INFLOWS	Schroder Tokyo	1,498.85	2,058.28	245.31	314.11
	Baillie Gifford Japanese	601.10	918.76	54.92	262.74
	BlackRock Japan Equity Tracker	833.17	1,099.07	105.15	160.75
	M&G Japan	96.93	214.52	14.15	103.44
	L&G Japan Index	727.05	868.91	92.19	49.67
OUTFLOWS	Fidelity Institutional Japan	437.96	438	71.43	-71.39
	Invesco Perpetual Japan	320.47	326.48	47.69	-41.68
	Henderson Inst Japan Enhanced Equity	165.62	175.22	21.61	-12.01
	CF Morant Wright Japan	569.35	647.33	87.92	-9.94
	Threadneedle Japan Growth	62.13	61.68	8.85	-9.29

SECTOR WEIGHTINGS – As at 28 July

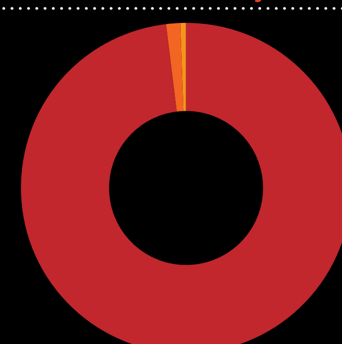


Industrials	24	Basic Materials	4.2
Consumer Products	17.4	Services	3.9
Financials	15.8	Hardware	2.2
Telecom, Media & Technology	14	Transport	1.8
Health Care	4.3	Others	12.4

TOP 10 MOST HELD

Name	% containing this	1 year ago (%)	Change in 1 year (%)
MITSUBISHI UFJ FINANCIAL GROUP	36.54	34.62	1.92
SUMITOMO MITSUI FINANCIAL GROUP INC	26.92	30.77	-3.85
HONDA MOTOR CO	17.31	15.38	1.92
TOYOTA MOTOR CORP	17.31	13.46	3.85
KDDI CORP	17.31	7.69	9.62
MIZUHO FINANCIAL GROUP	15.38	15.38	0
TOYOTA MOTOR CORP	15.38	13.46	1.92
SUMITOMO MITSUI FINANCIAL GROUP INC	13.46	13.46	0
SOFTBANK GROUP CORP	13.46	13.46	0
SONY CORP	11.54	9.62	1.92

REGION WEIGHTINGS – As at 28 July



Japan	98.1	International	0.5
Money Market	1.4		

RISK ADJUSTED RETURN – Top 5 funds (Sharpe ratio) over 1, 3 and 5 years as at 28 July

Name	1yr	Name	3yrs	Name	5yrs
Lindsell Train Japanese Equity	2.87	Lindsell Train Japanese Equity	1.85	Legg Mason IF Japan Equity	0.91
City Financial Japanese Opportunities	2.52	Neptune Japan Opportunities	1.27	Baillie Gifford Japanese	0.66
JPM Japan	2.08	AXA Framlington Japan	1.09	CF Morant Wright Nippon Yield	0.6
Allianz Japan Equity	1.87	Baillie Gifford Japanese	1.05	Aberdeen Japan Equity	0.59
JGF-Jupiter Japan Select	1.86	GLG Japan CoreAlpha	0.97	Old Mutual Japanese Equity	0.55

FE TRUSTNET
BE BETTER INFORMED

FE Crown Fund Rating: FE Crown Fund Ratings enable investors to distinguish between funds that are strongly outperforming their benchmark and those that are not. The top 10% of funds will be awarded five FE Crowns, the next 15% receiving four Crowns and each of the remaining three quartiles will be given three, two and one Crown respectively.

Technology

Breaking news and views

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IAN MCKENNA

Making a connection

The software selection process is becoming increasingly harder for advisers but getting it right is crucial. Here are some secrets to success

There seems an unprecedented level of interest among advisers recently for reviewing the technology they use to run their businesses.

Consequently, over the coming months this column will mainly focus on how advisers can better prepare for and conduct a review of their software as well as look at a number of the leading systems, their strengths and where they could be further improved.

Technology today can and should play a far wider role in the operation and management of any adviser firm. Gone are the days when the primary role was record-keeping and administration. If used effectively the technology used in an adviser's business should be the core operating platform through which the business is run.

To begin with, I want to look at two of the factors that have become far more important in recent years as part of the software selection process. Fail to get these two right and it will have a damaging long-term effect on the profitability of an advice business.

The software selected as an operating platform will in many ways define the services an adviser is actually able to offer. With this in mind, before even considering their software requirements, I would suggest firms review the actual customer propositions they want to offer. This in turn should help identify where technology is needed to support these propositions.

This takes us to the question of integration between the software systems that advisers use as an operating platform and the platforms they choose to partner with to support their clients. For firms that want to really optimise efficiency, it is now crucial to make software supplier selection and platform due diligence part of a connected process. Many software suppliers and platforms will claim links to each other but to optimise cost reduction and customer service, the key question is not whether a platform integrates with a software supplier but in what detail they do so.

Because of the importance of this issue we have made an analysis of the depth of platform provider and software integration one of the priorities as part of the free due diligence data aggregation service advisers can access at advisersoftware.com. Advisers can compare the detail of the information that can be exchanged between different platforms and adviser software packages to understand how their preferred platforms work with different systems and vice versa.

Meanwhile, there are many areas advisers should consider when looking to put together a suite of software to run their client-facing offering. But what can be offered to clients as a digital service?

Considering six out of 10 UK adults now own a smartphone and 70 per cent of families have at least one tablet device, the vast majority of customers who can afford to pay for financial advice are going to be using mobile devices for a number of purposes. They will increasingly expect their adviser to give them access to their information where they want it, when they want it and in whatever way they want it.

Such services actually offer an opportunity to have a far more active online dialogue with customers. Recent research by B&CE Pensions identified that even among the supposedly technology resistant 55 to 65 age group, two-thirds of consumers are interested in having a dashboard that presents all their financial affairs in a single place.

A wider range of such services are emerging but if clients start using these tools other than from their own adviser, there is a very real risk advisers will find themselves needing to review their client's affairs using a third-party system they do not control. For this reason I believe the client-facing proposition is now the most important part of an adviser's overall software proposition.

Ian McKenna is director of Finance & Technology Research Centre

GADGET OF THE FORTNIGHT

Charger is a key element

With apps sucking more and more data from our phones, one of the curses of modern life has increasingly become not having enough power to get you through the day.

It is often not convenient to carry a plug-type charger everywhere so a simple compact device could be a real bonus.

This is exactly what Native Union has produced with its Key Cable charger. Offered either as an Apple MFI-certified Lightning to USB cable or in a mini USB version to support Samsung, Windows Phone, HTC and Blackberry devices, it is a cable which attaches to your keyring so it is always to hand.

Capable of fast charging and data transfer, the 20cm length means a phone can still be used while being charged. At £25 from Amazon and other usual sources it is cheaper than a standard Apple cable.

It is a practical and convenient way to make sure you always have a charging cable with you.

Platforms

HEATHER HOPKINS

Human face of robo-advice

Experiences in the US demonstrate why human support is crucial for the success of robo-advice

There has been much debate about the role of robo-advisers and whether they will displace the traditional financial adviser, fill the advice gap or perhaps do both. Our view is they will be used mostly by advisers rather than the mass market of investors. What is more, we envisage robo-advice helping to fill the advice gap by reducing fees. Let me back up a bit to provide the context for this view.

Brand and reach

In the US, where we have seen the strongest adoption of robo-advice, it is interesting to note the numbers are still relatively small among the start-ups. When it comes to the leading US start-ups, first and second ranked Wealthfront, (established in 2011) and Betterment (established in 2008) had $2bn and $1.4bn in assets as at February.

The more established and recognisable Schwab tells a different story. Having launched its version of robo-advice in Q1, the first six weeks saw the service obtain $1.5bn in assets. Results published this month show assets grew to $3bn at the end of Q2, with 39,000 accounts opened. This just shows what a difference brand and reach can make to scale.

In our regular surveys with consumers and investors, we ask about the factors most important in selecting a platform. "A well known and trustworthy brand" consistently comes out on top, beating price by a wide margin. Schwab has the brand and reach to attract the masses but it also has something else: a human being to back it up.

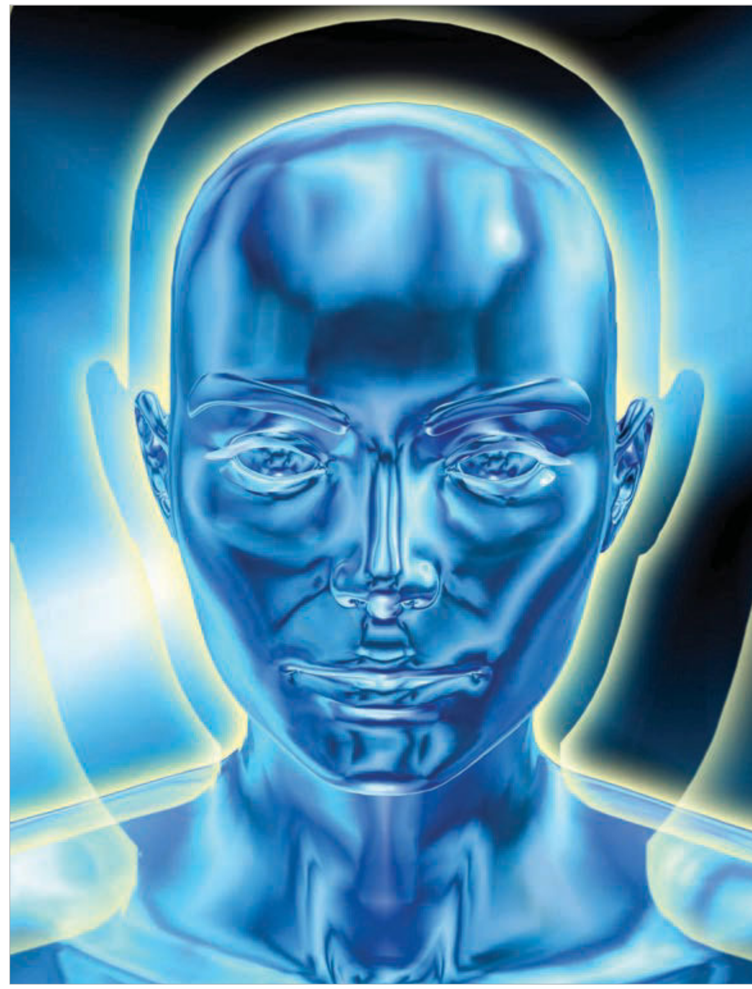
Human support

Having the human support to back it up is another factor we believe is crucial for the success of robo-advice. We know most investors take a blended approach, both seeking advice and going self-directed. We believe we will see a similar pattern with robo-advice.

Most investors are happy to manage their investments themselves but will want to check in with a real person from time to time. Often, this involves wanting to make sure the plan makes sense with a real live person as well as to get some support and guidance on the decision.

Working together

Back in the US, much of the take-up of robo-advice has been among advisers themselves. These tools, slick as they are, can still seem intimidating to the average investor. As soon as you start discussing risk-rated portfolios or asset allocation it can all seem a bit too complicated.



Most investors are happy to manage their investments themselves but will want to check in with a real person from time to time to get some support and guidance

Robo-advice offers a terrific opportunity for advisers to improve productivity and reduce fees. This, in turn, will help reduce the advice gap.

We will be debating the future of advice and the role of technology at the Platforum Annual Conference, produced in partnership with Aegon UK, on 1 October. In addition to debating the role of technology and digital engagement, we will hear from Aegon UK chief executive Adrian Grace about reshaping consumer access to, and engagement with, retail investments. We will also debate vertical integration and the prospects for platforms, income solutions for drawdown and the future of regulatory reform.

We will cover outcomes of the debate in this column but hope to see some of you there.

Heather Hopkins is research director at Platforum

Smarter business

ALAN HUGHES

Performance management put to the test

The FCA is taking a tough stand on poor practice, with much of its work sparked by whistleblowing from staff within firms

The FCA has released finalised guidance on performance management for firms (FG15/10). This is aimed at all firms that have staff dealing directly with retail customers. It can be tempting to think it applies only, or mainly, to banks and other firms with a vast direct salesforce but the regulator has made it clear this is not the case. In the opening section of the guidance there are several very clear messages, most of which should not take firms by surprise:

- A poor culture starts at the top. It is therefore the responsibility of senior management to ensure whatever performance management processes are used, they do not drive poor behaviours that in turn lead to poor customer outcomes.
- Whatever performance management or incentive tools are used, they will inevitably drive behaviours by staff at all levels looking to optimise their performance in the eyes of the firm under those processes. Firms and their senior management should largely be able to predict this and ensure appropriate controls are in place.
- Form over substance. Removing a direct link between "sales" and performance/remuneration will make no difference if an indirect link between the two persists through practices on the ground.

It is interesting to hear much of the FCA's work has been prompted by whistleblowing from staff within firms. This indicates staff subjected to poor performance management processes are aware of it and are choosing to do something about it rather than just go along with it, as may have been the case before.

The flip side of this is it could also indicate firms' senior management are not getting the message, which is only likely to increase the FCA's focus in this area. If staff at lower levels can see there is a problem, then the FCA would expect senior management to be aware of it and deal with it. If they are not and it comes to the FCA's attention via whistleblowing, then senior management are likely to be very much on the back foot when they come calling.

If asked by the regulator, all firms should be able to demonstrate quickly and clearly they are taking the following steps:

- An analysis should have been undertaken of what risks a firm's performance management processes are likely to generate. The firms should then decide if those risks are unacceptable or if they can be managed.
- If a firm considers the risks can be managed, they need to have decided how they will manage them, then do it and document it.

This is an exercise that all firms, if they have not done it already, should be looking at now. The process for ongoing monitoring of the risks should also be robust.

Another important point is the whistleblowing. As already mentioned, it appears a lot of the FCA's work has been driven by such. If staff are whistleblowing to the FCA, that must mean they do not feel they can do so internally, or that if they did it would not be taken seriously. This is a clear sign of poor internal culture.

Firms should work on ensuring they have an open and supportive culture under which feedback from staff is proactively encouraged. This is a no-brainer. It must be better for firms to seek this feedback internally than risk a member of staff going straight to the regulator.

Furthermore, firms have to show they then act on any potentially negative feedback from staff and take steps to address the issues raised. It is all pretty obvious stuff. The FCA wants to see firms completing the circle: good senior management attitude, risks identified and managed through appropriate procedures, open and supportive culture from top to bottom, regular reporting and feedback, and that feedback being considered and used back at the start of the process to tweak any areas where the firm is falling short.

One thing is certain: the FCA will not be letting up in its focus on this area. It is still not satisfied firms are taking the issue seriously. Clear warnings and some very practical guidance is being offered to firms. It is now up to them to take up the mantle.

Alan Hughes is partner at Foot Anstey LLP

COMPLIANCE TIP OF THE WEEK

Abroad spectrum

It is a tired cliché but the world is becoming a smaller place. The huge technological advances we are all familiar with allow many people to work from home or even from abroad.

With increasing numbers of people retiring or just spending more time abroad, it is inevitable regulated firms will have some clients that spend at least a part of the year outside the UK.

If you wish to continue your relationship with a client that has moved outside the UK, there are some simple rules of thumb to follow to make sure you are not falling foul of any non-UK legislation:

- If your client is in another member state of the European Economic Area, you will need a Mifid passport to provide investment services and an IMD passport for insurance services. These are both applied for through a variation of permission from the FCA. A Mifid passport may result in additional financial resource and reporting requirements.
- If your client is outside the EEA you will need to check with the host regulator to find out what their regulatory and licensing requirements are.
- In all cases you should ensure the client is getting appropriate tax advice in their place of residence and your PI insurer is informed of your proposed changes. The requirements are not related to residence or tax status. It is purely a matter of where the clients are located when you provide your services to them.

Phil Young is managing director at Threesixty

CHRIS DAVIES

Don't let our industry be cannibalised

Innovation must be encouraged and technology embraced to ensure the market is not dominated by the bigger players

With a landmass of approximately eight million km² and 6.15 per cent arable land, you would expect Australia's population to be far higher than its 23 million. The landmass of the US is only just bigger at 9.6 million km², yet the population stands at 318 million. Why the disparity?

The answer lies in the loss of young men in both the First and Second World Wars. Such tragic casualties adversely affected a young country, with a delicately balanced growing demographic. A tough analogy to use I know but somewhat relevant when we consider the effects of the waves of Government policy, regulatory change and increased levies in the UK financial services industry.

In Australia, where the change to fee-based services took the best part of 10 years to achieve, the bigger players were the only ones to survive, mainly down to deep pockets. Younger models could not make the transition as they did not have the trail income and clients to succeed. Is this a warning to the UK market for the next 10 years?

Post-RDR and a liberalisation of the market through changes to the Isa and pension savings regimes, alongside an evolution of new technology, means we are no doubt within our own distribution turbulence. With a price war for factory gate pricing and polarisation of advice availability the UK market is facing some stark realities. Questions need answering:

- What will the value chain costs need to be?
- How can we best communicate fee-based advice?
- What will the client appetite be for cost of advice and will they orphan themselves if they do not see value?
- Can platforms offer real flexibility within their charging structure and inter-platform transfer mechanisms?
- Is the move to clean share classes in April 2016 addressed from an on and off platform basis?
- How can the mass market be best served without advice?
- Which business models can survive based on increased costs such as Financial Services Compensation Scheme levies?

We must protect, encourage and support the innovation being seen within the industry to ensure healthy competition through the next few years. We do not want to see a cannibalisation of an industry where it is only the large players who survive. Firms that research their practice, client needs and market forces while embracing technology can develop streamlined and agile business models that will become cost-effective for both their advisers and clients. How can this be done?

Segment: Clients are more discerning than ever. Ensuring you have a segmented, centralised investment proposition that demonstrates suitability and services each part effectively means clients will value your proposition.

Cyber-advice: We believe there is a place for cyber-advice where firms buddy with new technology to service their carefully segmented client banks. Our latest survey shows a large uptake in the use for cashflow modelling, which is great. However, this needs to be carefully integrated into the advice process.

Ask the right questions: We find firms are not addressing back-office technology in the right way. Starting with the client needs, who the firm is and why it exists is one of the best strategies before selecting a third-party solution.

Embrace Mifid II: This piece of regulation will affect the advice market positively if it is understood and implemented correctly.

Think strategically: Do not just employ basic business management techniques. Ensure you identify and assess all internal and external resources and calibrate them against short-term goals and long-term objectives.

Beware the vultures: There are always bigger fish in the sea. They too are trying to ensure they sustain their welfare and many are now buying up distribution channels. A well structured due diligence strategy is required at board level for any adviser firm with an ambition to sell the business and ensure they are protected from a hostile takeover.

Future financial focus: Do not value your business based on historic product-facilitated income streams. It is those businesses mandating their clients directly that can confidently predict their client loyalty and sustainable future cash flows.

Chris Davies is managing director at Engage Insight

BUSINESS TIPS

DAVID SHELTON

Networking notions

Because networking involves a lot of personal time, you should consider the following questions to ensure it it is a route you want to follow:

- Are you prepared to spend at least one evening a month attending professional business meetings?
- Can you keep this up for two to three years, and often longer?
- Do you enjoy meeting new people?
- Do you have the patience to let relationships develop over a long time period?
- Are there networks open to you where a good number of potential clients exist?
- Are there networks or activities you enjoy that will also provide contact with the target audience?
- How much are you prepared to contribute to the operation of the network?
- Are you clear about the business objective of developing network relationships?

Many advisers will claim networking is highly rewarding in terms of new clients and potential advisers. There is no doubt advisers who are well known in their region stand a much greater chance of being approached by potential new joiners or clients than those who are anonymous. However, the personal commitment must be considered as part of the resource support for this type of activity.

David Shelton is a consultant at Stoke Bishop Associates

Find more tips online @moneymarketing.co.uk

Technical area

DIVERTED PROFITS TAX

TONY WICKENDEN

The diverted profits test

The Government is imposing a 25 per cent corporate tax rate on the diverted profits of multinationals. But how do they determine it should be applied?

Having broken off from the topic for the last two weeks to review what I consider to be the top five proposals for advisers in the summer Budget, I will now continue my look at the new diverted profits tax in the UK.

You will (hopefully) recall that the DPT represents, in effect, the imposition of a penal 25 per cent corporate tax rate on the diverted profits of multinationals.

Broadly, and subject to any applicable exemptions, the DPT applies in two different sets of circumstances:

1: Where a UK company has arrangements in place with a related non-UK entity that reduce UK tax liabilities, and those arrangements lack economic substance

2: A foreign company carries out activities in the UK but those activities are specifically designed to avoid creating a permanent establishment (a taxable presence) in the country.

The lack of economic substance is a critical factor in the application of the DPT to multinational companies. Here, the tax is targeting circumstances where arrangements are in place to divert profits from a UK company (or branch). For the DPT to apply in this situation:

- The UK company (or branch) will have arrangements with a related entity (UK or non-UK but normally non-UK)
- Those arrangements must result in an "effective tax mismatch outcome"
- The arrangements must have "insufficient economic substance".

As stated, the DPT can also apply where a foreign company carries out activities in the UK but is able to avoid the creation of a permanent establishment here. For the DPT to apply in this situation:

- A non-UK company will be carrying out a trade
- Another person (known as the "avoided PE") is carrying out activity in the UK in connection with the supply of goods, services or other property by the non-UK company in the course of its trade.
- It is reasonable to assume the arrangements are designed to ensure the non-UK company does not carry out that trade in the UK so as to create a UK permanent establishment.

And either:

- Arrangements have been put in place wholly or mainly for the purposes of avoiding or reducing corporation tax
- Arrangements are in place between the non-UK company and another related person that result in an "effective tax mismatch outcome" and these arrangements have "insufficient economic substance".

The DPT can apply where a foreign company carries out activities in the UK but is able to avoid the creation of a permanent establishment here

An "effective tax mismatch outcome" arises where the UK tax reduction derived from the arrangements by one party exceeds any increase in tax payable by the other relevant party to the arrangements, and the tax payable by the other party is less than 80 per cent of the UK tax reduction derived by the first party.

There has been much debate over what does and does not constitute insufficient economic substance in relation to the application of the DPT. Broadly, arrangements have insufficient economic substance where either:

- It is reasonable to assume that the transaction was designed to secure the tax reduction
- The non-tax benefits of the transaction do not exceed the financial benefits of the tax reduction
- It is reasonable to assume a person that is party to the transaction is involved in order to secure the tax reduction.
- The non-tax benefit of the contribution made to the transaction by that person (in terms of the functions or activities of that person's staff) does not exceed the financial benefit of the tax reduction.

There are tests intended to determine the commerciality of the transaction. The entity-based test is directed at non-resident special purpose vehicle entities set up for tax purposes that do not have the skilled staff necessary to undertake the relevant transaction and are, in effect, guided by skilled staff located elsewhere.

Meanwhile, the transaction-based test imposes a further hurdle where the entity-based test may not be satisfied, requiring a further evaluation of the tax and non-tax benefits of operating the transaction in that manner. It is anticipated, however, this benefit analysis will, in many cases, be difficult to assess in practice. So once it is determined the DPT should be applied, what is it to be applied to and how do you quantify what diverted profits are? You will have to wait until next week's instalment to find out...

Tony Wickenden is joint managing director of Technical Connection

DIVIDEND TAX

TONY MUDD

For better or worse

It is all change for dividends once again, which will affect the standard tax advice around portfolio construction

In 1973, the UK had an imputation system for dividend taxation. This was a method of giving credit to the recipient for the tax paid by a company making the distribution. It always felt appropriate and in line with many other tax systems around the globe.

However, that has not stopped numerous chancellors from mucking about with it. Whether this has been on the promise of creating a fairer tax system or for the benefit of the exchequer is open for debate.

What cannot be disputed is that from the first step taken by Norman Lamont in 1993 through to Gordon Brown severing the link between tax credit and corporation tax paid, the imputation system has been eroded. Finally, we have a chancellor in Mr Osborne who has, arguably, taken the logical decision to scrap tax credits completely. This ends the imputation system. While he could have left matters there, he also announced:

- A £5,000 dividend allowance from 2016/17
- New rates of tax above this allowance of 7.5 per cent, 32.5 per cent and 38.1 per cent for basic rate, higher rate and additional rate taxpayers respectively.

According to the Treasury, 85 per cent of individuals in receipt of dividends will either be better off or no worse off. If we assume the average dividend yield on a portfolio of equities is 3 per cent, this leads us to the conclusion 85 per cent of investors have portfolios of no more than £166,000. For those with portfolios in excess of this level, the position from 2016/17 is very different to where we are now.

The table below only shows the increase in tax paid and effective tax rates between 2015/16 and 2016/17 on the slice of dividend for income over the new £5,000 allowance. The question is, who are the taxpayers that will benefit from this? The answer is arguably perverse:

- For investors paying tax at the higher rate, the £5,000 allowance is worth £1,250 (£5,000 x 25 per cent)
- For investors who pay tax at the additional rate, the allowance is worth £1,527 (£5,000 x 30.55 per cent)
- For investors falling within the basic rate, the allowance provides no benefit whatsoever.

The bad news for basic rate taxpayers does not end there. While they currently would not pay any tax until their income fell into the higher rate threshold from 2016/17, they will now pay 7.5 per cent tax over the allowance.

These changes could also have knock-on effects to some of the standard tax advice around normal portfolio construction. The end to grossing up dividend income will have a material effect on those investors selecting tax wrappers based on ensuring income does not take them into the next threshold for income tax. Furthermore, for many clients, the value of stocks and shares Isas will now only be in terms of capital gains tax, which few investors are liable for in any case.

Finally, we have a chancellor who has, arguably, taken the logical decision to scrap tax credits completely

We also have the issue of investment bonds. On the face of it, over and above the dividend allowance tax rates of 7.5 per cent, 32.5 per cent and 38.1 per cent does not compare well with onshore bond gains taxed at 0 per cent, 20 per cent and 25 per cent.

We do not yet know whether, or to what extent, these changes will affect the rate of tax levied on dividends within life company funds although it is something all of us will be looking at carefully.

A further interesting twist, with corporation tax itself reducing to 18 per cent by 2020, is whether this will result in higher net dividend yields and further changes to the effective rate of tax on dividend distributions. These are changes the majority of investors do not understand. But perhaps that is the point.

Tony Mudd is divisional director, tax and technical support, at St James's Place

COMPARATIVE DIVIDENDS TAX TABLE

	Basic rate		Higher rate		Additional rate	
	2015/16 £	2016/17 £	2015/16 £	2016/17 £	2015/16 £	2016/17 £
Dividends	9,000	9,000	9,000	9,000	9,000	9,000
Tax credit	1,000	-	1,000	-	1,000	-
Gross taxable	10,000	9,000	10,000	9,000	10,000	9,000
Tax liability	(1,000)	675	3,250	2,925	3,750	3,429
Tax credit	1,000	-	1,000	-	1,000	-
Tax to pay	-	675	2,250	2,925	2,750	3,429
Effective tax rate	10%	16.75%	32.5%	39.25%	37.5%	44.29%

SOURCE: ST. JAMES'S PLACE

THE CPD CENTRE QUIZ

To help you to keep up with the fundamentals of tax, retirement and financial planning, try these three questions.

1 Vera's total pension contributions for 2015/16 exceed her available annual allowance by £3,000. She is a 40 per cent taxpayer and all contributions are paid by her employer. What tax is payable by whom on the excess?

A) £600, payable by her employer

B) £1,200, payable by Vera

C) £1,200, payable by her employer

D) £1,650, payable by the scheme administrator

2 What is the main difference between Scotland and England in terms of valuing pension benefits on divorce?

A) In Scotland, only benefits accrued after age 21 are considered

B) In Scotland, only benefits accrued during the marriage are considered

C) In Scotland, all benefits accrued are considered, even those arising before the marriage

D) In Scotland, the value of the pension commencement lump sum is ignored

3 Jill is aged 66. She has a basic state pension of £113.10 a week and savings of £20,000. She has no other income. In the 2015/16 tax year, how much pension credit would she be entitled to each week?

A) £5.20

B) £17.40

C) £22.06

D) £22.30

Answers 1: B, 2: B 3: C

Questions supplied by CPD Centre

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What to look for in a new CMS provider

by Ann Dempster, Plum Software Managing Director

Okay, it's time. You need to do something about your Client Management Software (CMS) and get back to the fun of being a financial adviser. But which software is right for you? How do you get beyond the sales pitch and make sure your CMS provider can truly understand your needs and support your business?

Here are three simple questions to help you get to what matters.

Does the CMS complement your business practices?

The most important function of any CMS is to make your job easier. You need to be able to create workflows and assign tasks, modify or create bespoke fields to align with the way you manage your business and communicate with your clients.

It is critically important that you have a live demonstration of the software, not just a PowerPoint presentation or online demo, so that you can be sure the CMS works the way you work, that can be tailored and adapted to fit with your processes.

Will you get the support and development that you need?

Your business moves fast, your CMS partner needs to move with you. A good CMS serves your business needs today and will grow with you as your business grows. Look for a system with robust development capabilities and a track record for listening and responding to client feedback. Check out their customer support too – make sure they offer phone support and not just an email helpdesk. Further, make sure that when you call you talk to an expert right away, nothing can disrupt your business more than not being able to get answers you need when you need them.

Is your data secure and accessible?

Your clients trust you to protect their data. Check and double check the security measures of your CMS provider, and if they are cloud based make sure it's a private cloud and that your data is protected by the Data Protection Act. Also make sure that you have access to your data and that you can readily get it from your provider at no additional cost. After all, it's your data!

Good luck in your search, and let us know if we can help.

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Senior Financial Planner (Milton Keynes)

A leading national advisory firm is looking to recruit a Senior Financial Planner to service a client base in Milton Keynes.

The business has been established since the 1930's and has grown organically through acquisition, boasting 65 corporate and private client advisers. Additionally it has strong connections with professional markets.

Your role will be to provide holistic financial planning solutions to an existing HNW client base and the business already has a number of professional connections. The business prides itself on a flexible adult working culture and works with the adviser to ensure sustained and continued success.

Full para-planning and administration support is given. The successful applicant will be diploma level 4 qualified and will receive a salary between £35,000 - £65,000 with an unlimited bonus potential, you can earn up to 50% of everything you write + pension + benefits.

Interested applicants should contact Barry Pendrill at **barry.pendrill@hanoversearch.com** or call **0207 248 2244.**

Field Sales Managers (Nottingham & London)

A FTSE 250 Wealth Manager is seeking Field Sales Managers to join its highly successful business in their Nottingham and London based offices. Established in 1991 the business has over £20 billion funds under management and has won numerous awards during this period.

Your role will be to work closely with a team of 25 established financial planners, aiding them to maximise business writing opportunities through coaching, developing and mentoring. Utilisation of marketing tools and identifying new business opportunities with introducers will also be a major requirement. The position has supervisory responsibilities, so part of the role will be conducting 1-2-1's and field based observations.

This opportunity boasts outstanding career development prospects. Field Sales Managers can be promoted within the role to various grades such as Senior, Executive, Regional Director and Executive Director. Each grade has an enhanced remuneration package. The ideal candidates will be diploma level 4 qualified and have a consultative management style. The key to success in this position is tailoring your approach to each individual adviser so they are able to achieve their goals.

A salary between £50,000 - £65,000 + car allowance up to £9,300 + up to 80% of salary bonus + non – contributory pension + PMI + CIC + DIS. Additional bonuses are also available for referring individuals or business to the talent acquisition team which is 50% of initial joining fee and 50% of % of first 3 years business written.

Interested applicants should contact Barry Pendrill at **barry.pendrill@hanoversearch.com** or call **0207 248 2244.**

IFA

Nottinghamshire — **to £55K plus uncapped bonus & benefits**

Already boasting various satellite offices across the UK, this expanding IFA practice is looking to establish roots in the Nottinghamshire/ East Midlands area, with the opening of its first office in the region. Despite the lack of a regional hub, one of the founding Directors is based locally, and has developed a substantial client bank of HNW/ UHNW individuals. You will inherit existing clients with portfolios ranging from £250K - £2M+, and will provide expert, whole of market financial planning solutions. Working in close collaboration with the Director, you will further enhance its reputation across the Midlands, generating new business opportunities and further professional connections through effective networking, ensuring the new office hits the ground running. Remuneration is negotiable, with no upper limit to the basic salary, and you will also enjoy an uncapped bonus scheme and comprehensive benefits package. This role represents an opportunity to play a pivotal role in the latest stage of the company's significant growth plans.

Associate Consultant x2

Manchester & Nottingham — **to £25K plus comprehensive benefits**

A leading national Employee Benefits Consultancy is seeking an Associate Consultant to assist one of its Regional Directors in the management of a substantial existing client base. Providing support to the Director in all aspects of their work with clients, you will free up their time to develop additional new business opportunities, effectively acting as a link between them and the Administration Team. You will finalise client reports, negotiate with insurers in terms of new business and renewal quotations, and accompany the Director on client visits and road shows, managing action points and any matters that arise during such meetings. This is a fantastic opportunity to 'learn the ropes' from an experienced and successful Consultant/ Director. Whilst the role is essentially that of a Trainee Consultant, it is desirable that you have relevant industry qualifications, as well as the ambition to gain further qualifications on your way to becoming a fully-fledged Consultant.

IFA

Newcastle — **to £45K plus £5K car allowance, bonus & benefits**

A highly respected and leading independent Insurance Broker, with a long-established Financial Services Division, requires the first Adviser for its most recently launched satellite office. Benefiting from the established corporate relationships on the insurance side of the business, you will work closely with the Broking Team in order to generate new business opportunities with their clients, as well as working together to source new business. With various auto enrolment staging dates on the horizon, combined with the makeup of the existing client bank, there is huge potential to generate substantial levels of business. As well as an attractive salary and competitive bonus structure, you will receive a comprehensive range of additional benefits including car allowance, health cash plan, group life cover and pension.

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Are you a Paraplanner looking for a new challenge?

At Bellpenny we have multiple roles available in our Reading and Birmingham offices. These roles offer a salary of £25-£35K dependent on experience.

Bellpenny is a wealth management company founded in 2012 with private equity backing from Oaktree. To date we have made 30 acquisitions and currently have in excess of £3.5 billion pounds in funds under active management.

In this position you will support up to 2 Financial Planners, ensuring they have the best possible advice to provide to their clients.

There are many benefits of joining Bellpenny. These include: career development, a training plan, support for relevant professional exams, 25 days holiday, 3% corporate pension contributions, individual Prudential healthcare cover with the option to add in family member and a quarterly bonus scheme.

If this is of interest and you'd like further information regarding the benefits of working for Bellpenny as a Paraplanner please email a cover letter and your CV to careers@bellpenny.com

FINANCIAL DIVISIONS (CITY) LLP

Junior Paraplanner - Full Study Support

£33k, Harpenden

This expanding wealth management company prides itself on the personnel and bespoke advice it offers to their HNW client base operating across the spectrum of investments, mortgages, pensions and protection offering whole of market independent advice.
You will already have gained one year + experience in a client administrator /preplanning role within an IFA/ Wealth management company and be ready to develop into a role where you will provide a comprehensive back up to a market leading team. Currently studying for your Diploma in Financial Services (DipPFS) you will have successfully passed at least RO1 and RO2.

Paraplanner - Wealth Planning

£45k, London

This extremely successful business that focuses on clients with net assets of £500k+ has grown dramatically over the last two years and has led to the requirement for a further paraplanner to provide paraplanning support to the practice's directors. Assist in all aspects of practice's operations, including but not limited to, following up with 3rd party providers, helping prepare transfer paperwork, conducting analysis of prospective clients' existing holdings, and formatting and producing recommendation proposals. The practice offers an extremely competitive package, the salary on offer can go as high as £60,000 for the right person (upper end of the salary will be paid in recognition of strong technical knowledge, individual performance and their additional operational/office management).

HNW Financial Planner

£80k+, Manchester, Bristol and the Midlands

A leading financial services business with offices in London, New York and Sydney and now looking to establish a presence in the Midlands. The requirement is for a Senior Financial Planner heading towards or at Chartered Financial Planner status.
The firm is a Chartered practice which specialises in £1m+ clients and as part of a wider group has easy access to a lead generation service which can generate, with pin point accuracy, wealthy clients in any given post code. They have experienced a real upward movement in demand across the UK and are consequently looking to establish a local presence.
Ideally you would be a Chartered Financial Planner or someone with the aptitude to achieve that level. You will be dealing with qualified appointments for business largely drawn from investment and pension's clients. The leads provided to you would be consistently from wealthy clients and HNW experience is essential.

Assistant Financial Planner

£36k+ training contract, London – City

A prestigious Wealth Management business in the City of London is looking for a high quality graduate with some experience in a financial planning or investment management role. The Assistant Financial Planner will be working with highly qualified professionals providing a holistic wealth management service to UHNW private clients. This is a first class financial services business which has won many awards for the quality of its investment advice year after year. They have an absolute focus on clients with a high income and significant investable assets such as magic circle partners, barristers and family estates.
The stepping stone to this opportunity is twelve months experience in a Paraplanning role covering research, suitability reports and have started studying for your Diploma. The role will give you exposure to all aspects of estate planning, investments, pensions and tax planning working with an established planner until you're ready to become an advisor yourself.

For further information about these or other roles within financial services please call us on 0207 397 5544 or email a CV to recruitment@financialdivisions.co.uk

The Wells Street Journal

A weekly account of the curious goings-on in the world of financial services

Treasury reveals a blind spot

It is not exaggerating to say Her Majesty's Treasury is obsessed by the financial advice industry at the moment.

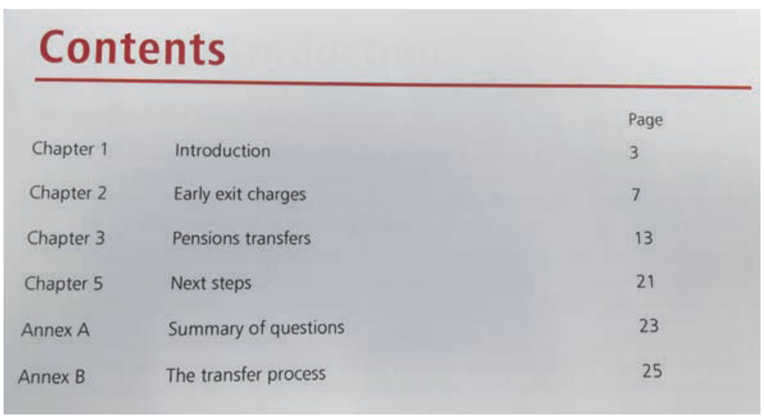
Last week saw the launch of not one, but two Government consultations with financial advice at the heart of them.

But it seems the bean counters working under Chancellor George Osborne in Horse Guards Road missed the memo.

HMT's investigation into pension transfers, early exit penalties and the new advice requirements ushered in by the pension freedoms has an interesting contents page (see below).

Worryingly for a department devoted solely to the nation's finances, chapter 3 is succeeded by chapter 5. And what is in the missing chapter, you may ask. It is, of course, the section devoted to the rules about when advice must be taken.

Clearly the advice sector - in particular its trade bodies - faces an uphill battle to make politicians take a blind bit of notice about the concerns of the industry.



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Scribe's power bid put down

Parliamentary authorities had to be at their very sharpest this week to spoil an attempt to seize control of the UK's democracy by *WSJ* sister title *Money Marketing* head of investment news Laura Suter.

Despite having to pass through Westminster's airport-level security, the scurrilous Suter managed to inveigle her way into the very seat of British power, invading the House of Commons during a drinks event organised by Axa Wealth.

However, her ploy was cut short when she was tackled by diligent security staff used to intercepting boozy MPs strolling back from the Commons bar.

The intrepid hack was quickly escorted from the premises, with reports suggesting Suter repeatedly howled "don't you know who I am!?" as she was dragged away.

WSJ sources are uncertain of what Suter sought on the green benches of Parliament.

However, one thing is clear - the Commons authorities are thrilled to have foiled another invasion from a suspicious scribbler.

OUT OF CONTEXT

"I'm leaving to join a band called Single Tier"

DWP press officer Daniel Barnes reveals his next career move.

"I'll be honest, I thought it was my hairdressers"

AJ Bell Kirsty Zollinger understandably confuses politics reporter Mark Sands with Vidal Sassoon.

"I'm in the middle of working on the pig"

Needanadviser.com's Ashley Clark's new project is so secret he can only use a code name.

"I know I'm not stupid"

Hargreaves Lansdown head of pensions research Tom McPhail makes a bold claim.

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